

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Wednesday July 22 1987

Willy Pinochet digs
in for next
term, Page 4

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World News

Business Summary

Afrikaners protest as liberals return

Hundreds of right-wing Afrikaners turned up at Johannesburg's Jan Smuts Airport to vent their rage against a returning Afrikaner delegation which has spent the last two weeks talking with the banned African National Congress in Dakar and visiting black Africa. Page 18

Attache expelled

Bulgaria's military attache in London Col Ivan Pavlov has been expelled for suspected espionage. He was given 14 days to leave because of what the Foreign Office described as "activities incompatible with his status." Page 6

Mozambique deaths

More than 300 people, including women, children and hospital patients, were killed in a rebel attack in and around the town of Homoine, 500km north of Maputo. Page 3

East-West ties

West German Foreign Minister Hans Dietrich Genscher and his Hungarian counterpart Peter Varkey discussed East-West relations and arms control in Bremen as part of regular consultations.

Arrests in Dhaka

Bangladesh police arrested over 50 dissidents to prevent attempts to disrupt "public life" during a 54-hour strike called by opposition groups and due to start today.

Soviet journalists

The Soviet Union has accused the US of violating provisions of the 1976 Helsinki agreement by restricting access for Soviet journalists to White House and State Department briefings.

Squatters in the cold

Scores of black squatter families spent a freezing night in the open after local authorities demolished their shacks in a Johannesburg township.

Late monsoon

India's wayward monsoon has set in late, leaving farmers and inhabitants of the northern plains are praying for relief from the summer heat. In 80 years of record-keeping, July 20 was until this year the latest date on which the rains had reached Delhi.

Emergency food

The United Nations World Food Programme will grant nearly \$21m in emergency food aid to help refugees and displaced people in Pakistan, Lebanon, Cameroon and Malawi.

EC flood aid

The European Community extended \$500,000 in aid to families affected by floods which killed at least 16 and left thousands homeless in Italy last weekend.

Camp clashes

Heavy clashes flared for a fifth day around Palestinian refugee camps near Jordan in the west fighting for three months. Palestinian groups appealed to Syria to deploy observers to help end the fighting between Palestinians and the Amal militia.

Japan secrets

The Soviet Embassy in Tokyo rejected a Japanese request that one of its diplomats submit to police questioning about the possible illegal transfer of commercial secrets from Japan to Moscow.

Tamil peace plan

Indian officials and Tamil leaders met in the Indian city of Madras for talks on new proposals to resolve Sri Lanka's ethnic conflict.

Heat wave

Bulgaria sweltered under a heat wave with temperatures at a record 41.8 degrees centigrade, causing the death of at least one person from sunstroke.

Chrysler results better than expected

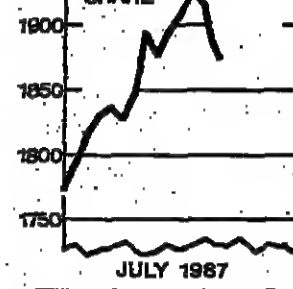
CHRYSLER, third largest US motor manufacturer, surprised Wall Street with stronger than expected net income for the second quarter and a 12.5 per cent growth in revenues despite falling unit sales. Page 19

WALL STREET: The Dow Jones

industrial average closed down 19.77 at 2,497.95. Page 44

LONDON: Unsettled by interest

rate worries and the prospect of BP's £1.5bn share offering, equities



ties and gilt fell despite late rallies. The FT-SE 100 index fell 10.2 to 2,390 and the FT Ordinary index lost 17.6 to 1,872.0. Page 44

TOKYO: Small-lot selling persisted in Tokyo yesterday, driving share prices sharply lower. The Nikkei average ended 250.26 points lower at 23,078.36. Page 44

GOLD rose \$1.00 on the London bullion market to close at \$452.25. It also rose in Zurich to \$452.25 (\$450.50). Page 33

DOLLAR rose in New York at DM 1.8555, ¥151.70, SFr 1.9425 and £1.0125. It rose in London to DM 1.8655 (DM 1.8620); to SFr 1.9525 (SFr 1.9500); and to £1.0140 (SFr 1.9500). On Bank of England figures, the dollar's exchange rate index fell 0.1 to 72.3. It closed in New York at \$1.0025. Page 33

STERLING fell in London to \$1.9080 (SFr 1.9020); DM 2.7775 (DM 2.8225); ¥243.75 (¥244.75); SFr 2.87 (SFr 2.8850); and £1.0125 (SFr 1.9525). The pound's exchange rate index fell 0.1 to 72.3. It closed in New York at \$1.0025. Page 33

CITICORP, largest US banking group, said its latest earnings would have increased by 22.5 per cent to \$388m had it not had to add \$30m to its loan loss reserves. Page 19

ALLIED-SIGNAL, diversified US industrial group strong in aerospace and automotive components, has suffered a one-third fall in earnings because of thinner profit margins and an unfavourable mix of sales. Page 19

HENLEY GROUP, collection of unprofitable businesses spun off by Allied Signal just over a year ago, announced a \$700m cash tender offer for nearly a quarter of its own shares and plans to raise its stake in Santa Fe Southern Pacific, troubled railroad and energy group. Page 19

AMERICAN EXPRESS, financial services conglomerate, has reported a small second quarter loss, as forecast, because of a \$600m addition to loan loss reserves. Third World debt. Page 19

MBE, West Germany's leading aerospace company, fell DM 140m (\$75.2m) into loss last year, after DM 100m profits in 1985. The company is expecting a DM 95m loss to the current business year. Page 20

PARIBAS, French investment banking group, has acquired for about £750m (\$80.6m) a 13.4 per cent stake in Compagnie Luxembourgeoise de Telediffusion (CLT), the Luxembourg-based broadcasting group, from Schlumberger, the Franco-American oil services company. Page 20

EAST-WEST AIRLINES, aggressive discount airline operating out of New South Wales, and Skywest, West Australian airline, have been sold for an undisclosed sum to a Perth-based group. Page 21

US rejects Soviet offer for Gulf co-operation talks

BY OUR FOREIGN STAFF

THE US yesterday turned down a Soviet offer of top-level talks on co-operation in the Gulf, following the UN Security Council's unanimous call for a ceasefire in the Iran-Iraq war on Monday night.

The Foreign Ministry in Moscow said Mr Mikhail Gorbachev, the Soviet leader, had written to President Ronald Reagan offering to hold specific discussions on the Gulf conflict "in any format that is convenient for the President".

But Mr Martin Fitzwater, the White House spokesman, said the Reagan Administration believed the Security Council was the proper forum for dealing with the Gulf conflict.

The US statement seemed to dispel hopes that the superpowers might step up their co-operation with a view to easing tensions in the Gulf which Moscow believes have been heightened by an increased US naval presence there. Mr Gorbachev's letter said he believed there were good prospects for superpower co-operation in the region.

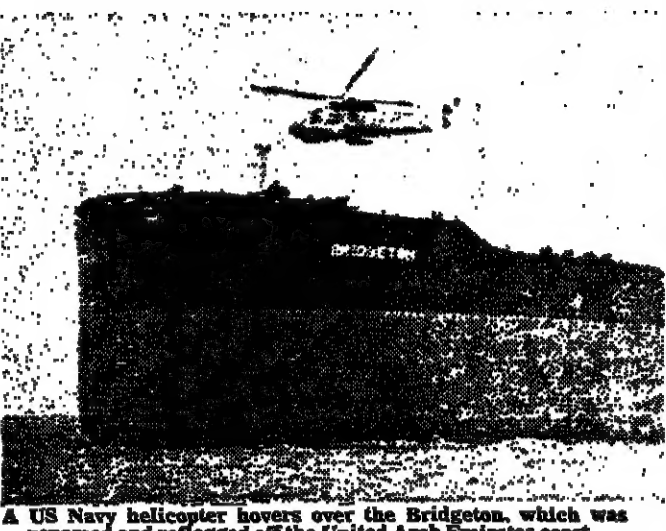
Although the US and the Soviet Union both strongly backed the UN resolution, they are at odds over Soviet calls for a withdrawal of foreign warships from the region.

As expected, Iran yesterday rejected the Security Council resolution, its first mandatory ceasefire call in the seven-year war with Iraq. It viewed the motion as a positive development. Though neither party has formally delivered its response to the UN, their initial reactions suggested that the US was likely to press ahead in the next few weeks with efforts to frame a further Security Council resolution. This is expected to call for an arms embargo on Iran, as the country which has refused to negotiate a settlement to the war.

At the same time, the American flag was hoisted on the first of 11 Kuwaiti oil tankers which are due to receive US protection on voyages through the Gulf. The first of them, the 40,000-tonne *Brigitton*, was expected to enter the Gulf with a strong naval escort either last night or today. The protection plan has raised fears that the US might become embroiled in a direct confrontation with Iran, which has singled out ships trading with Kuwait for attack in the last year.

In Washington, Mr Caspar Weinberger, the Defense Secretary, reiterated that the US was ready to respond to any Iranian attack on the tankers. "We believe we have the capabilities to do that - both in the air and on the sea - and we will certainly exercise those capabilities to protect the shipping," he said.

In Tehran, the Iranian Foreign Ministry said the Security Council's resolution was "unjust" and that the increased presence of American warships in the region rendered it "null and void". It added that Iranian policy on the war - which calls for the ousting of Iraqi Pres-



A US Navy helicopter hovers over the *Brigitton*, which was renamed and refitted off the United Arab Emirates coast.

dent Saddam Hussein among other things - would not change as a result.

In Baghdad, however, the Iraqi Government is expected today to accept the resolution and to agree to halt military action on condition that Iran does the same. Iraq is thought likely to halt its attacks on shipping for the time being, and this may prompt a lull in the tanker war which has hit more than 300 vessels in the Gulf in the last few years. Iran has repeatedly pledged to refrain from attacking ships if Iraq does likewise.

Security Council members now intend to give the two belligerents time to digest the ruling. Sir Geoffrey Howe, the British Foreign Secretary, who was among several ministers at the UN on Monday, told the House of Commons yesterday that the resolution was "carefully balanced" and that it was a determined attempt to tackle the un-Low hand. Page 2; Editorial comment, Page 18

Continued on Page 18

BP will raise £1.5bn and reorganise US operations

BY MAX WILKINSON IN CLEVELAND AND LUCY KELLAWAY AND PHILIP STEPHENS IN LONDON

BRITISH PETROLEUM yesterday announced that it is to raise £1.5bn (\$2.4bn) through the offering of new shares linked to the UK Government's sale of its 31.7 per cent holding this autumn.

At the same time, BP gave details of a major reorganisation of its US operations intended to complete the integration with its former subsidiary, Standard Oil of Ohio.

The share issue is designed to reduce BP's debt, which rose to nearly 45 per cent of equity as a result of its \$7.5bn cash purchase of the 45 per cent of Standard's shares which BP did not already own by reducing borrowings to about one third of equity, the issue will give BP in-

creased flexibility in making future acquisitions.

Mr Norman Lamont, Financial Secretary to the Treasury, yesterday confirmed that the sale of the new shares would take place in the autumn at the same time as the sale of the Government's remaining stake.

He said that the Government would buy the new BP shares on a fully paid basis, and then sell the entire issue in one piece with a payment due in instalments. Existing BP shareholders will be given preference in the allocation of the £1.5bn of new shares.

The combined issue, likely to raise more than £3bn, will be the largest issue of shares ever attempted in the London mar-

ket. Despite its size, analysts predicted yesterday that the sale could be conducted without causing indigestion in the market. BP shares closed just 7p lower at 380p yesterday.

Mr Rodney Chase, BP's group treasurer, said yesterday: "We want to put BP in the strongest possible position to carry on pursuing our strategy of expansion, without concern about excessive indebtedness."

In the spring, when BP was laying plans to buy the remainder of Standard, a substantial increase in the enlarged company's share capital was seen as part of the financing plan. BP was anxious to target the new shares at international investors.

Continued on Page 18

EC ministers agree tighter car exhaust pollution standards

BY WILLIAM DAWKINS IN BRUSSELS

EUROPEAN COMMUNITY Environment Ministers yesterday took a major step towards ending two years of uncertainty for European car makers when they resolved a long-standing deadlock over exhaust pollution.

An urgent meeting called by Denmark, the new President of the Council of Ministers, agreed on a scheme that will allow - but not force - member states to reduce car exhaust levels in stages between 1988 and 1993.

The scheme sets tighter pollution standards for cars with engine capacities of two litres or more, to come into effect on October 1988 at the earliest for new models, or October 1989 for

new cars in existing model ranges. The corresponding dates for cars between 1.4 litres and 2 litres are October 1991 and 1993, with cars below that size to come into line between 1990 and 1991.

Ironically, Denmark, supported by Greece, has staunchly resisted the proposal claiming that it was not tough enough. But Copenhagen brought it forward yesterday to make use of new rules in the recently introduced Single European Act that would allow it to be outvoted in a majority vote and apply later to impose tougher national standards on its own. This is the first time the Act, which introduces more majority voting in a

number of fields, has been used to unblock a major EC proposal.

The scheme will now be passed to the European Parliament for a response within three months. If the Parliament approves the proposal or asks for modifications in line with its earlier votes in favour of tougher US-style exhaust standards, then laid down in yesterday's package, the Council can take its final decision by majority vote. But, if the Parliament rejects the package, the Council will need unanimity - which is very unlikely to be forthcoming - if the scheme is to be kept intact.

Flat tops sales, Page 2

Texas Air dismisses Continental chief executive

By James Buchan in New York

TEXAS AIR, the largest group of US airlines, yesterday fired the chief executive of its Continental Airlines subsidiary in a tacit admission of the management problems created by its rapid growth through acquisitions.

In a terse statement yesterday, Texas said that Mr Thomas Plasket, chief executive of Continental since November, had resigned. He is replaced by Mr Frank Lorenzo, the group's tough chairman who has created the free world's largest airline through a series of ambitious and rapid-fire acquisitions.

Yesterday's announcement confirms widespread rumours about the difficulties Continental is facing in merging its routes and management structure with those of New York Air and its recently acquired low-fare carrier People Express and Frontier Airlines.

It is also likely to add fuel to the debate in the UK over the proposed merger of British Airways and British Caledonian into a megacarryer of the kind created through the wave of US mergers since deregulation in 1978.

On Monday, Continental, which is one of two major subsidiaries of Texas alongside the Eastern Airlines, reported a loss of \$71.1m on sales of \$748.6m, a performance Mr Lorenzo described as "disappointing".

Texas Air would give no reasons for the management shake-up. However, one well-placed airline official said that difficulties at Continental were proving more intractable than at the time of the \$125m People Express deal last September.

The Texas Air board decided the strong hand of leadership was needed, he said.

The dismissal of Mr Plasket, who was lured from a senior position at American Airlines to run the drastically enlarged Continental last November, took Wall Street by surprise yesterday.

But analysts had warned that schedule disruptions and lost luggage were driving passengers away, leaving Continental with a load factor of 82.3 per cent in the June quarter, which is below the industry average.

"When you have airlines with poor service reputations or declining service, there are bound to be disruptions in a merger," said Mr Anthony Hatch, an airline analyst at Argus Research.

With different wage scales between Continental and non-union employees, morale is low at Texas Air, analysts say.

Mr Volcker, who was present-

Volcker sees no need to switch policy

BY STEWART FLEMING AND ANATOLE KALETSKY IN WASHINGTON

MR PAUL VOLCKER, in his last major policy statement to the US Congress, expressed general satisfaction with the immediate prospects for the country's economy and the level of the dollar and indicated that there was no case for changes in monetary policy.

As Mr Volcker delivered his assessment of the US economy and monetary policy, Mr Alan Greenspan, nominated to succeed him as chairman of the Federal Reserve, presented himself as a pragmatic analyst of the American economy and pledged to "follow in the footsteps" of his predecessor as a determined inflation fighter.

The central focus must be on restraining inflation," Mr Greenspan, 60, and professorial in demeanour, told the Senate banking committee in his confirmation hearings. "If that fails we have very little possibility of sustaining long-term growth."

But Mr Greenspan, whose first appearance on Capitol Hill since his nomination was fully timed to coincide with Mr Volcker's last, displayed a confidence in the magic of the markets to resolve America's economic problems which his more sceptical predecessor might not share.

Asked what yardstick he would use to measure when the Third World debt crisis had been conquered, Mr Greenspan responded that the day the debtor nations are back in the international financial market and able, for example, to float five-year Eurodollar notes "is the day the problem is essentially solved."

On the current outlook for the debt crisis Mr Greenspan suggested that although "still fragile" the situation "has improved quite dramatically" since 1982 because commercial banks have increased their capital and reserves and there is "a growing international awareness that market solutions are the way to get out of economic difficulties."

On several substantive policy issues, however, Mr Greenspan left no doubt that his views are close to those of the Reagan Administration. Questioned about the need for a tax increase to reduce the federal budget deficit, he said that he did not believe that this was the best way to go. "Put-up pressures to increase government spending would tend to erode the short-term benefits of a tax increase. Expenditure reductions were therefore the best alternative."

Mr Volcker, who was present-



Alan Greenspan: pledged to follow in the footsteps of his predecessor

ing the House banking committee with its mid-year assessment of the economy, said on the separate issue of international bank regulation, that he had hopes of an agreement between the US, the European Community and Japan by the end of this year on "a consistent set of standards for bank capital adequacy."

Mr Volcker added that the Fed's present view of US economic prospects was "in some areas strongly encouraging." He pointed particularly to pretty clear signs of an improving real trade balance, to a slowing in domestic consumption, to increasing activity in the manufacturing sector, to a reduction in the 1987 budget deficit, and to successful international co-operation on exchange rate stability and the debt problem.

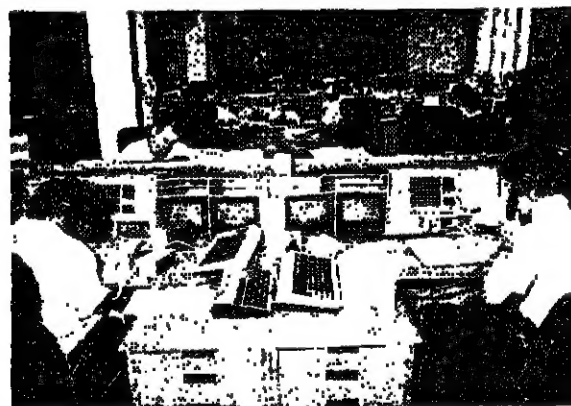
He said that the Fed's monetary growth targets would remain unchanged until the end of this year from the current range of 5% to 8% per cent. These targets would continue to be interpreted loosely, depending on "prevailing economic and market circumstances." Subject to this provision monetary growth "around the lower ends" of these ranges would remain appropriate, he said.

In 1988, the target growth bands for the broad definitions of money - M2 and M3 - had tentatively been agreed as 5 to 8 per cent, half a percentage point below the 1987 target.

In an answer to a question about the possibility of a discount rate reduction in the near future, Mr Volcker said the current "stronger dollar" might be consistent with an easier monetary policy, but indicated that the Fed would look for other factors.

Progress clouded, Page 4

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GANDHI

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THE STORM

Claims of corruption and bribery have pushed India's premier into a political crisis. Page 18

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OVERSEAS NEWS

Kuwaiti tankers prepare to run Gulf gauntlet

By Andrew Whitley in Kuwait

TWO redagreed Kuwaiti tankers guarded by a powerful US Navy force were preparing yesterday to sail into the Gulf through the narrow Strait of Hormuz after nightfall.

The Stars and Stripes had been hoisted by yesterday morning on the two vessels, the 401,000-tonne Bridgeton and the 47,000-tonne Gas Prince, anchored off Khawr Fakkan in the Gulf of Oman. Then four US warships moved into position alongside, ready for the convoy's dangerous 550-mile run up to Kuwait—a journey expected to take two and a half days.

As the long-awaited escort operation finally got under way, Iran deliberately raised the stakes by stepping up checks on shipping entering the Gulf. Over the past 48 hours, shipping sources said Iran's Revolutionary Guards, operating out of the main naval base of Bandar Abbas, had been challenging an increasing number of ships passing through the Straits of Hormuz, demanding to know their cargo and destination.

"What's been happening is that two hours after the verbal check by radio, if they say they're going to Kuwait there's been an attack," said one source familiar with the traffic.

The last incident was on July 15, when the French-owned container ship, the Ville d'Amiens, en route from Bahrain to Kuwait, was hit by Iranian



Revolutionary Guardsmen in a high speed launch. Tehran radio yesterday also announced the seizure by a Revolutionary Guard naval patrol of three small Kuwaiti boats, believed to be fishing boats, which they said had been spying. There was no confirmation of the claim from the Kuwaiti authorities.

The belligerent stance the Iranians are adopting notwithstanding, the consensus of opinion in the Gulf yesterday was that the Revolutionary Guards are unlikely to tangle with the first, or even the second, US convoys—the latter scheduled to begin on August 6. "They will wait until the spotlight is on and their (the Americans) guard has been relaxed, and then try something," commented an Asian diplomat.

Australian coal miners postpone strike

By Chris Sherwell in Sydney

AUSTRALIAN coal miners yesterday postponed a planned national strike while talks are held between unions, employers and the government.

The strike was planned as a protest at redundancies, mine closures and altered working conditions sought by mining companies in order to reduce costs in the face of a weak coal market.

Australia, the world's largest coal exporter, earned more than \$55bn from foreign sales in the last financial year. A national strike might jeopardise its markets.

In New South Wales, where most underground mines face the biggest threat, workers at 11 collieries yesterday stayed on strike in protest over redundancies.

Meanwhile pit owners unveiled their own ideas for rationalisation of the industry proposing a 20 per cent reduction in mine-site costs and 50 per cent lower state government charges in order to limit retrenchments.

They also suggested setting up a tripartite body of employers, unions and government.

Colina MacDougall reports on the reaction of Chinese authorities to student unrest

University students pulled back into line

TO THE alarm of the authorities, China's students have begun to adopt some of the habits of their contemporaries worldwide.

It is not just that in a dozen or more cities many demonstrated last winter against the controls of China's autocratic system—a movement which brought dismissal to party general secretary Mr Hu Yaobang and gave an unprecedented boost to the conservatives in the leadership.

Nor is it that others protested some months later against a factory on the Peking campus.

The consternation is centred on an outbreak of traditional student activities such as playing poker all day, "dancing cheek-to-cheek" all night, drinking, fighting and generally making merry.

These have no appeal worthy science and philosophy students at Shanghai's Fudan University that they wrote to the college president, labelling this "unsound style of study" as "intolerable."

University officials are worried. In Peking, one party secretary was in a state of shock at the extravagant lifestyle of spendthrift students, buying liquor and cigarettes, giving parties in restaurants and taking out girls who were frittering away their parents' or scholarship

money on trendy clothes.

Nor surprisingly, these same students regarded the party's puritan message of "arduous struggle, hard work and thrift" as "something to be ashamed of."

In Tianjin, rowdy behaviour rather than high life was the problem, with boozing and hooting at meetings, scribbling on walls, fighting and theft. At Hebei Teachers' College it was sloppy work—students ignored school discipline, cheated in tests and skipped exams when they felt like it.

The gush of reports of such malpractices in recent weeks might give the impression that student misbehaviour has broken out like a plague. The likelihood, however, is different.

Roused by the demonstrations in December-January, the conservatives in the party have put the squeeze on the colleges to clean out the unorthodox and the trouble-makers. The attack on undergraduate high-jinks is just part of a campaign to keep the party's thumb pressed well down on student activity.

In consequence universities have clamped down hard. Some students have been expelled, some warned and some listed as wrongdoers on college notice-boards. Perhaps



Shenzhen university students last December join widespread protests against increases in teaching fees

worse, their misdeeds will be noted on records that will stay with them for life.

Milder measures have included efforts to boost boy-scout-type loyalty such as Fudan's "soliciting suggestions for the new version of the school song". Recalcitrant scholars have been urged to "learn to love the school" and hold "heart to heart chats" with ardent activities.

But the major weapon in the party's new campaign is China's familiar one of the despatch of students to the countryside to do voluntary labour.

Ten thousand students from Peking university are off to poverty-stricken areas like Ningxia in western China or Anhui in the east, supposedly to provide "technical assistance".

The Peking Economics College has despatched a team to the Jiangnan mountains in Jiangsu, one of the cradles of Mao Tse Tung's revolution, to teach the peasants how to sign the contracts.

Chinese People's University students have fanned out all over China to work in major steel and coal plants. In all, over 1m students will be doing manual labour this summer.

When Deng Xiaoping, China's reformist leader, came to power 10 years ago, colleges stopped sending students to the countryside to gain more time for study and to try to make up for the dearth of educated people caused by the closure of schools in the 1966-76 Cultural Revolution.

While education officials have stressed that the labour programme will take place outside class hours and will not interfere with academic pursuits, it is a sign of the shift in values since January in the Chinese leadership's thinking.

For the sake of a good political record, many students may now spend time on labour which is quite irrelevant to their degrees. The campaign is a depressing omen for a developing country constantly handicapped by its extreme shortage of intellectual skills.

Moi accused of torturing opponents

By Stephanie Gray

AMNESTY International has accused the Kenyan authorities of trying to silence political opponents of President Daniel arap Moi by torture and detention without trial.

At least two people have died in custody and a further 100 critics imprisoned in the past year, the London-based human rights group said in a report, Kenya: Torture, Political Detention and Unfair Trials, published today.

The organisation said the Kenyan Government appeared to have adopted a deliberate programme to silence or intimidate its political opponents. Prisoners of conscience had been tortured and detained indefinitely by administrative order without charge or trial.

Most victims had been arrested on suspicion of having links with Mwakenya, a secretive radical movement which is critical of corruption and of the government's closeness to western countries. Many, however, appeared to have done no more than criticise the way the country was run, the report said.

The latest government crackdown, which began in March last year and which has brought US calls for a public investigation, led Amnesty said, to the arrest of several hundred suspected political enemies, including lecturers, students, journalists, lawyers, businessmen, civil servants and farmers.

Amnesty said that, in a so-called "swimming pool" torture used by the police Special Branch, "prisoners have been held naked for days on end in waterlogged underground cells, in some cases, until their feet began to rot."

BBC denies S Africa claim on ban

By Robert Mowbray

THE BBC has disputed a statement by the South African Embassy in London that Pretoria had "at no stage placed a ban on BBC television news correspondents."

The BBC said it had been "effectively banned" from South Africa when the authorities refused to renew Mr Michael Buerk's work permit after its expiration date of May 24.

Though Mr Buerk was due to be replaced as correspondent in South Africa by Mr James Robinson, the change-over was not scheduled to take place until this month. Mr Robinson did not receive his South African visa, for which he had applied in March, until last week.

It was thus nearly two months during which BBC TV News was prevented from operating in South Africa. A South African Embassy spokesman in London said that, following the announcement that Mr Buerk's permit would not be renewed, the South African ambassador met a senior representative of the BBC. The ambassador assured him that there was no ban on BBC reporters and that Mr Robinson's application "was receiving urgent attention."

The spokesman emphasised that, during the interval between Mr Buerk's departure and the arrival of the new BBC TV News correspondent, the BBC Radio correspondent in South Africa, Mr Graham Leach, was covering for BBC TV News. It was therefore incorrect to claim that the BBC, as an organisation, had at any time been banned from South Africa.

Mozambique alleges rebel massacre

By Anthony Robinson in Johannesburg

THE MOZAMBICAN state-owned news agency (Aim) yesterday reported that more than 380 people were killed on Saturday in and around the town of Homoine, 500 kms north of Maputo, by Mozambique National Resistance (MNR) rebels.

Quoting the provincial radio of Inhambane Aim said many women, children and old people were among the victims together with patients from the local hospital.

A further 49 seriously wounded people had been taken to the provincial hospital of Inhambane.

Commenting on what it called the Homoine massacre Aim said that the MNR attack, which began just before dawn on Saturday, followed a massive infiltration of "armed bandits" into the south of the country in recent months from South Africa.

It also accused South Africa of supplying the rebels by air and claimed that a supply plane had been shot down on May 8 near Cutipe in Inhambane province.

Angola has made similar allegations against South African military operations in southern Angola in recent weeks while the African National Congress (ANC) has accused South Africa of waging a secret war against ANC cadres in neighbouring states and further afield.

Ivory Coast to resume debt repayment

By Peter Blackburn in Abidjan

THE IVORY Coast will resume debt payments "as soon as circumstances permit", Mr Barber Conable the World Bank President said yesterday in Abidjan.


Speaking at an airport press conference at the end of a three day visit which included lengthy talks with Ivorian President Houphouët Boigny he said it was impossible to predict how soon this would be.

The Ivory Coast stopped debt payments nearly two months ago following a collapse in cocoa and coffee export earnings. The government has forecast a 570m financial gap and a one per cent decline in real gross domestic product this year.

Mr Conable said that joint working groups had been set up under the chairmanship of the Minister of State, Mr Maurice Seri Gnolesha, and the World Bank's director for Africa, Mr Ismail Serageldin, to work at a programme focussing on economic growth, rather than merely debt management.

The groups will co-ordinate with the IMF, Paris and London clubs, he added.

"We agreed there is no easy answer to Ivory Coast problems, many of which are beyond its control. Much planning and hard work is needed and this should start as soon as possible," Mr Conable said. He said there was no "serious" divergence over investment priorities with agreement on the need to do more for agriculture and education.



When cotton yarn processors James Sutcliffe & Sons Ltd were told of the massive savings they could make by switching from oil to electricity they were, frankly, sceptical.

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AMERICAN NEWS

Argentina
to boost
private
sectorBy Our Correspondent in
Buenos Aires

ARGENTINE economic authorities yesterday announced measures designed to deregulate and increase private sector participation in key economic areas while simultaneously aiming to reduce the fiscal deficit.

The measures were introduced by Mr Juan Sourrouille, the Economics Minister, and Mr Pedro Trucco, the Public Works Minister.

They follow a rise in inflation rates, which hit 8 per cent in June and are forecast to reach 9 per cent this month. The cut gross domestic product, two points above that targeted in this year's accord with the International Monetary Fund.

The most significant measures include:

- Restructuring of the state-owned oil company, Yacimientos Petroliferos Fiscales (YPF).
- Financial re-ordering of public companies, with the exception of the state railroads, eliminating their access to automatic Treasury transfers and concentrating investment funds in one common pool under the control of the Ministry of Defence.
- Privatisation of eight petrochemical companies controlled or partially belonging to the Ministry of Defence.
- Elimination for the 1987-88 harvest of export taxes on three major grain crops and reductions on three others and the opening to private sector participation of specific areas within the communications and transport sectors.

Other measures were announced in the area of tax and financial sector reforms. Most salient are changes in the tax structure and reforms in the official banking sector.

Analysts say there are unanswered questions as to how the changes will be implemented and to what extent the large body of measures is a list of good intentions. While they are definite signs that the government wants to move in the direction of a more open economy with a reduced state sector, many, if not most, of the measures will require legislative changes or approval.

FED MONETARY POLICY REPORT TO CONGRESS

Progress clouded by risks and imbalances

MR PAUL VOLCKER, the outgoing chairman of the US Federal Reserve Board, yesterday delivered the semi-annual Humphrey-Hawkins monetary policy report to Congress. The following are excerpts from the report.

Monetary Policy: The economy expanded at a somewhat accelerated pace in the first half of 1987, and the civilian unemployment rate declined over the period to 6.1 per cent in June, the lowest level in this decade. Moreover, the pattern of activity has exhibited encouraging signs that a turnaround in the trade sector is under way.

An improvement in net exports in real terms appears to be providing a lift to activity in the industrial sector, offsetting slower growth of domestic spending and sustaining a moderate rise in overall domestic production.

However, the process of restoring balance to the US external accounts has involved a sizable increase in the price paid for imported goods. These price increases have occurred at the same time that a rebound in world oil prices was carrying inflation rates above last year's modest pace.

Although some of the elements necessary for sustaining economic growth are now beginning to fall into place, the economic outlook continues to be clouded by a number of imbalances, risks and uncertainties.

The experience of the first half underscored, in particular, the dangers associated with a loss of market confidence in the dollar and the related potential for a rekindling of inflation expectations.

US ECONOMIC PROJECTIONS			
	1987 (per cent)	1988 (per cent)	Central tendency
Range		Range	
Nominal GNP	51-71	51-7	51-7
Real GNP	2-3	2-3	2-3
GNP deflator	2-3	2-3	2-3
Average unemployment rate	6.1-6.5	6.2-6.4	6.2-6.4

Source: Federal Open Market Committee members and Federal Reserve Bank presidents

The Federal Reserve, in implementing monetary policy, was sensitive to these dangers, while it continued to provide support for sustainable economic growth. During the first part of the year, growth in money and credit slowed from the rapid pace of 1986, even though pressures on the reserve positions of depository institutions remained mild. Those pressures were increased somewhat in late April and May, however, as the dollar fell sharply against other key currencies. Inflation expectations flared up, and long-term interest rates jumped to higher levels.

In response to these steps, and to complementary policy actions taken abroad, the dollar has stabilised, and interest rates have retreated somewhat from their May highs.

If the nation is to achieve an orderly transition to better external balance, one marked by a minimum of financial or inflationary pressures, responsible action by many parties—in addition to the Federal Reserve—will be necessary.

Further progress in reducing our federal budget deficit is essential: a failure to achieve this often-stated objective could only damage confidence in our ability to deal with our economic problems and contribute to imbalances in financial markets and the economy.

In addition, satisfactory growth in the other major industrialised countries is crucial, as are efforts on all sides to maintain and improve the openness of the international marketplace.

Economic background: The economic expansion has now progressed well into its fifth year. Real GNP rose at a 4 per cent annual rate in the first quarter.

Beneath these solid gains in aggregate economic activity have been welcome improvements in the fortunes of sectors that have failed to participate in the increasing prosperity of the past several years.

The most significant development has been the emerging improvement in the nation's trade performance, which has begun to close the gap between the pace of growth in the industrial sector and the rest of the economy; indeed, some segments of manufacturing have reached relative high levels of capacity utilisation and strong profitability.

While the external sector has been strengthening, in real terms in recent quarters, growth in domestic demand has moderated considerably.

A key element in the recent trade developments has been the steep drop in the foreign exchange value of the dollar—almost 40 per cent on a trade-weighted basis against other G-10 currencies—since early 1985.

That decline, in conjunction with notable restraint on labour costs, has greatly enhanced the competitiveness of US producers in international markets. At the same time, though, the depreciation has caused prices of imported goods to increase—sharply in some cases—and exacerbated a bulge in prices coming from higher energy costs.

The rise in consumer prices, averaging more than 5 per cent at an annual rate over the first five months of this year, was a disturbing departure from recent experience.

In these circumstances, and with the economic advance evidencing reasonable momentum, the Federal Reserve in late April and May adjusted its

open market operations to impose a somewhat greater, but still quite limited, degree of pressure on the reserve positions of depository institutions. The rate of growth of the money stock measures M2 and M3 has been well below that of last year and close to, or below, the lower end of the target ranges adopted in February.

Credit growth at its meeting earlier this month, the FOMC did not change the 1987 ranges for money and credit growth that it had established in February.

Consistent with the objective of maintaining progress over time toward general price stability, while supporting sustainable growth in economic activity, the FOMC decided to adopt on a tentative basis lower growth ranges for money and credit in 1988.

The central tendency of the Federal Reserve Committee members and other Reserve Bank presidents is for growth in real GNP of 2½ to 3 per cent in 1987 and 1988. Between now and the end of next year, this pace of activity is expected to generate jobs in about sufficient number to match the expansion of the work force.

Consequently, the civilian unemployment rate is not expected to change appreciably from the 6½ per cent average of the second quarter.

Prices, as measured by the implicit deflator for GNP, are expected to rise 3½ per cent over the four quarters of 1987—central tendency range reported to the Congress in February.

For 1988, projections of the increase in the GNP deflator centre on 4 per cent. Assuming world oil prices are more stable,

RANGES OF GROWTH FOR MONEY AND CREDIT AGGREGATES			
	1987	1988	(provisional)
4th-qr to 4th-qr, % change			
M2	5-8	5-8	5-8
M3	5-8	5-8	5-8
Debt	6-11	7-10	7-10

Source: Board of Governors of the Federal Reserve System

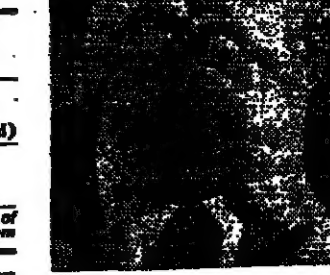
there should be no repetition of the rebound in domestic energy prices.

The view that inflation next year will not rise significantly from the pace projected for 1987 is grounded in a belief that recognition of the potential for losses of market share and job opportunities will continue to influence wage- and price-setting behaviour.

While restraint on inflation is crucial in achieving an orderly adjustment of our massive external imbalance is corrected, so too is continued progress in reducing the federal budget deficit.

Reduction of foreign capital will shrink in step with the reduction in our current account deficit, and in that context excessive federal borrowing requirements, as they put pressure on financial markets, pose a threat to the ability of our economy to fund necessary private capital formation.

Finally, the members of the Committee and other Reserve Bank presidents also view the prospects for a healthy US, and world, economy as depending significantly on the avoidance of further protectionist measures at home and abroad and on a satisfactory economic growth in other major industrial countries.



Volcker: perfunctory

Silent
tribute
to VolckerBy Anatole Kaletsky in
Washington

IT WAS the highest tribute the Congress could have paid Paul Volcker. There was no standing ovation. In fact, most of the House Banking Committee did not even turn up for the retiring Chairman's final monetary reports to Congress.

Those who did bother to come delivered their formal votes of thanks, took a few side-glances at their Republican or Democratic opponents and, in a sort of re-enactment of Haydn's farewell symphony, left the committee room almost without waiting for Mr Volcker's perfunctory replies to their perfunctory questions.

Clearly there was more important business than Mr Volcker yesterday on the political agenda.

Yet anybody who had watched Mr Volcker's appearances before the Congress through the years could scarcely doubt that the Fed chairman would take the day as a compliment.

In the dark days of the 1980 dollar crisis or the depths of the 1982 recession when Mr Volcker practically needed a riot shield to fend off the political voters who he ventured into the Congress, the fact that he can appear in a committee room today and almost be ignored by politicians is eloquent testimony to the economic stability and independence of monetary policy making which he has done so much to foster.

When asked for a final remark about his tenure at the Fed, Mr Volcker expressed only one major disappointment. This was his failure to shepherd legislation through the Congress which would re-establish the US banking industry in a sounder and more modern legal framework.

But on the conduct of monetary policy, he clearly had no regrets, either as to substance or to his cryptic style of presentation.

Asked by the traditional crush of reporters who followed him out of the committee hearings to justify the Fed's latest monetary actions, Mr Volcker said: "We looked at all the circumstances that were relevant and we decided what we had to do what we did."

Military chief
'did not know'
of Iran sales

FORMER US National Security Adviser Mr John Poindexter testified yesterday that President Ronald Reagan's Administration decided to sell arms secretly to Iran, but never sought further information from the National Security Adviser.

Sen Howell Heflin, a Democrat from Alabama, said Mr Poindexter had "known" in late June or early July 1986 about the sales, after several transactions had already been made.

Split in Brazilian ruling party widens

BY IVO DAWNAY IN RIO DE JANEIRO

THE polarisation of the two wings of Brazil's dominant Democratic Movement Party (PMDB) appeared to be gathering pace yesterday.

Left and centre-left advocates of a four-year term of office for President Jose Sarney announced the formation of a new group—the Progressive Unity Movement (MUP)—aimed at launching a coordinated campaign for direct presidential elections in 1988.

At the same time, Mr Sarney

was reported to have ordered the Government's leader in the Congress, Mr Carlos Sant'Anna, to build a cross-party alliance to back his call for a five-year mandate.

The sharpening of divisions between the two lobes comes after the inconclusive outcome of the PMDB's national convention last weekend. It had been hoped that the party would back his position on the mandate and had pressed for a vote. But, according to reliable reports, the decision of the convention to hold the ballot in secret persuaded Mr Sarney to give way to party leaders urging a deferment of the vote to avoid an unprecedented public split in the party.

Mr Fernando Bracher, who resigned as Central Bank president in March, has been named Brazil's chief foreign debt negotiator.

He has become only the second federal member for the left-centre NDP sent to Ottawa by Newfoundland.

Ms Marion Dewar, 58, former mayor of Ottawa, held Hamilton South, near Toronto, for the NDP with a narrow majority over a prominent Liberal candidate.

Ms Audrey McLaughlin, took the Yukon district with a large majority for the NDP, with the

Canada's NDP takes districts

BY ROBERT GIBBENS IN MONTREAL

THE Canadian New Democratic Party swept all three federal by-elections on Monday, showing that it can turn its leading position in the opinion polls into votes.

The NDP candidate, Mr Jack Harris, a 38-year-old labour lawyer, won the Newfoundland district of St John's East, a mixed blue-collar and professional area, by 4,000 votes over the Progressive Conservative opponent.

He has become only the second federal member for the left-centre NDP sent to Ottawa by Newfoundland.

Ms Marion Dewar, 58, former mayor of Ottawa, held Hamilton South, near Toronto, for the NDP with a narrow majority over a prominent Liberal candidate.

Ms Audrey McLaughlin, took the Yukon district with a large majority for the NDP, with the

Liberals second and the Tories third.

The ruling conservatives of Prime Minister Brian Mulroney now hold 206 seats in the House of Commons, the NDP 58, the Liberals 40 and the Tories 35. One seat is held by an Independent.

Mr Ed Broadbent, the NDP leader, said the results confirmed his party's strong lead in the opinion polls and that the prospect of an NDP government being elected in 1988 must be taken seriously. But most observers say the NDP victory expresses widespread dissatisfaction with Mr Mulroney's economic policies and disappointment with the Liberals' narrow majority.

The NDP victory in St John's East, in the face of an immense effort by the Tories, probably reflects anger over the Government's handling of excessive

fishing by French and other European trawlers and continuing high unemployment.

The Yukon had been held by the Tories for 20 years and the NDP victory reflected the closure of the Yukon from the Meach Lake constitutional accord and severe regional economic difficulties. Hamilton South had been expected to re-elect the NDP candidate.

Two polls earlier this month gave the NDP about 41 per cent of the decided votes in Canada, the Liberals 35 per cent and the Tories 23 per cent. Mr Mulroney must call the next federal election by July 31, 1988, if he wishes to take advantage of present electoral boundaries.

Otherwise redistribution will increase the Commons to 285 MPs, from 282, providing Ontario and British Columbia with four more seats each and Alberta with a further five.

Wily Pinochet may succeed in
hanging on after 1989

BY MARY HELEN SPOONER IN SANTIAGO

THE television camera focuses on a heavy set, stably dressed man who has just received the keys to a home in a government-built low income housing development. The woman expresses her gratitude to General Augusto Pinochet's regime, and urges those homeless Chileans still waiting for placement "not to lose hope."

Such images, broadcast frequently on government television news programmes, are part of what Chilean opposition groups believe is a severely designed effort to boost support for General Pinochet as a candidate for the one-man presidential plebiscite less than two years away.

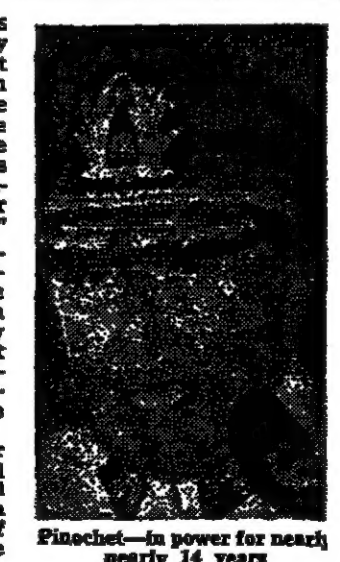
Last month three of the four military commanders who will choose that candidate said publicly they preferred a civilian as Chile's next head of state. It was not the first time they had expressed such views, but the timing of their statements indicated a stauncher resolve to block any plan to prolong Gen Pinochet's presidency past 1989, the year his current term ends.

But Gen Pinochet has been in power for almost 14 years making him the longest-running head of state in Chilean history, and it is possible that the wily head of state may still secure the nomination.

He enjoys the solid backing of most tanks in an army where disloyal officers have been quickly removed or transferred. The new generation of officers have never known democratic rule and hence are even more rigid in their views than their predecessors.

Other security force commanders are well aware of the army's strength in relation to their own forces. A contingent of the national police, known as the "Carabineros", is controlled not by the police force commander, but by an army general in charge of security for greater Santiago.

Those who step out of line have not found life easy, even if they have held senior military positions. Air Force Commander General Fernando Matthei, a moderate whose predecessor was pushed out of the government in 1978 for arguing in favour of democratic transi-



Pinochet—in power for nearly 14 years

tion, was recently the object of what diplomats say was a well orchestrated rumour campaign concerning his personal life. The army-backed regime has even on occasion considered incorporating the Chilean Air Force into the army.

Outside the army, General Pinochet enjoys considerable support in the Chilean business community, bolstered by fears of what changes in the free market economic policies a democratically elected government might bring. A Chilean business weekly, Estrategia, published a survey taken among business executives which gave the Pinochet regime's economic team a 96 per cent approval rating.

"I would say that the Chilean businessman wants things to change as little as possible," said Mr Fernando Lenz, a former economy minister and one of the architects of the National Accord—a multi-partisan platform for a return to democracy in Chile. "Contact with politicians have been scarce and there is a deep mutual distrust."

At the other end of the country's social spectrum, the regime enjoys a small but surprising amount of support among poor Chileans, especially

those who hope to benefit from an ambitious public housing programme and whom they have frightened by crime and political protests in their neighbourhoods.

General Pinochet, while stopping short of old-fashioned political patronage, has toured the Chilean countryside, alternately blasting his critics and praising his supporters to dismiss their problems. The regime has distributed 10,000 public housing units over the past six months, and authorities talk of reaching a record level of building 70,000 units in a single year.

Mr Eugenio Tironi, a sociologist who has studied attitudes among low income groups, said that poor Chileans expect the state to fill a benefactor role, guaranteeing such basic needs as jobs and housing and tend to support any government which promises to meet these objectives.

"Poor Chileans are more pragmatic than one might think," he said. "Human rights is an issue of greater concern to the middle class, which is guided more by values and abstract principles."

If the regime is courting the poor, it is also cracking down hard on those people in low income sectors where anti-government sentiment runs high. Last week the military, police and armed civilians blocked off seven working class Santiago neighbourhoods, raiding previously designated homes and interrogating the inhabitants. A Catholic priest working in one of the affected areas reported that children returning home from school had their satchels searched, and in some cases soldiers took notes from their exercise books.

In another incident a Catholic rectory was raided, and a group of parishioners who had gathered to pray were beaten and arrested.

Mr Ricardo Garcia, the Interior Minister, said the authorities were looking for weapons and explosives and said the raids would continue. Officials have not reported discovering any armaments.

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The Reference Agent

22 July 1987



NILFISK

Japanese hope SDI pact will mend US links

BY IAN RODGER IN TOKYO

THE Japanese Government is hoping that its agreement to participate in research for the US Strategic Defence Initiative (SDI) signed yesterday in Washington after eight months of negotiations, will help calm the tense relations between the two countries on trade and technological issues.

"We certainly hope this will facilitate the participation in SDI of Japanese companies and that that will lead to a further enhancement of mutual co-operation," a Foreign Ministry official said yesterday.

This is a much warmer attitude to the Star Wars project than the Government's previous stance. It was announced in September when it announced its intention to seek an SDI agreement. At that time, the Government's view was that it would merely provide a framework, then leave it to private companies to seek contracts.

The agreement comes at a time when US anger over the illegal export of sophisticated machine tools to the Soviet Union by a Toshiba subsidiary is still high. However, Toshiba is also one of Japan's leading defence contractors and a potential participant in SDI-related research.

The foreign ministry official said "at least a few" Japanese companies had shown clear interest in participating in SDI. Asked if he thought the Toshiba affair would reduce their interest, he said, "I hope not."

Despite this positive attitude to SDI, the Japanese Government has not gone as far as the UK Government, which set up an agency to co-ordinate participation by British companies.

Japan's participation in SDI is a sensitive domestic political issue because of the country's commitment to peace and its renunciation of nuclear weapons.

The Government has justified its approval of Japanese companies' participation in SDI partly on the grounds that only research is involved at this stage. Also, officials say Japanese companies would be unable to work on nuclear aspects of the project because they have no expertise on nuclear weapons.

The Government said last autumn when entering negotiations with the US that the dis-

The Soviet Embassy in Tokyo has rejected a Japanese request for one of its diplomats to be questioned by police about the possible illegal transfer of commercial secrets from Japan to Moscow, Reuters reports from Tokyo.

Tokyo police said the embassy had told the Japanese Foreign Ministry that the diplomat would not cooperate with police. Police have questioned a Japanese aircraft equipment company executive whom they suspect of selling millions of dollars in aeronautical technology to the Soviet Union since 1984.

The Soviet Embassy condemned the investigation as anti-Soviet harassment. The Japanese executive might have sold the Soviet a computerised flight management system, designed to provide a computerised flight pattern for pilots of Boeing 757s and 767s, among other secrets, police said.

Such issues would be the extent to which participating companies would be allowed to have access to the technologies they developed during their SDI research.

However, the foreign ministry official said yesterday that this was not a sticking point. Rights to the use of technology would be granted on the basis of existing US regulations.

The negotiations took a long time because the Japanese had no knowledge of the US defence procurement system and so wanted to study it thoroughly.

The official said Japanese companies were also ignorant of the system and so he expected that they would participate initially as sub-contractors to US companies rather than on their own.

The US House Armed Services Subcommittee was voted to ban the Defence Department from buying Toshiba products for retail sale in military stores, Reuters reports from Washington.

The subcommittee action on a 10-0 vote was the latest expression of anti-Toshiba sentiment because of the Soviet exports row.

Exporters' success likely to embarrass Seoul

BY MAGGIE FORD IN SEOUL

SOUTH KOREA'S exporters yesterday almost achieved their target for this year's annual balance of payments surplus in only six months. This performance, however, is likely to cause the government embarrassment as it attempts to counter protectionist pressure from the US.

Figures issued by the Bank of Korea show that the half-yearly balance of payments surplus was \$4.1bn, compared with \$4.6bn for the whole of 1986, the first substantial surplus

South Korea had ever recorded. Trade accounted for most of the surplus, with car exports up 163 per cent, electronics up 64 per cent, toys 79 per cent, machinery 42 per cent, and even textiles, suffering from the appreciation of the South Korean won showing a rise of 37 per cent.

Invisibles contributed \$200m to the surplus mainly because of income from freight insurance charges and remittances from Koreans abroad, attracted by the investment opportunities offered by the booming stock

market and the appreciating won.

Lower interest payments on South Korea's foreign debt, which has now been reduced from \$44.5bn last December to \$42bn at the end of June, also pushed up invisible earnings.

The figures place the Government's target for a trade surplus between \$7bn and \$8bn and its current account surplus at no more than \$5bn in doubt.

Seoul officials produced a package of measures in April, including market liberalisation, import diversion from Japan to the US and a boost to public spending to assuage US pressure.

South Korea's trade figures traditionally show a rise in the latter half of the year, particularly at peak consumer spending periods in the months before Christmas, and the figures for all of this year have already shown major advances.

A report from the Federation of Korean Industry yesterday said that exports in the first half had reached \$20.9bn, compared with \$14.1bn for the

whole of last year, an overall growth rate of 33 per cent.

Seoul is likely to come under further pressure from Washington on the appreciation of its currency as a result of its impressive trade record.

When officials from the International Monetary Fund visited the country in June to discuss the level of the currency, South Korean officials are believed to have agreed to an appreciation of around 10 per cent, accompanied by current account surpluses of around \$5bn for the next few years.

● A US-South Korean joint-venture company will build a \$13.7m photo mask manufacturing plant near Seoul, company officials said yesterday.

The plant is a film used for the manufacture of semiconductors.

The joint company, owned 40 per cent each by Asia Cement Manufacturing Co., lead manager of the project, and Macro LSI of the US and 20 per cent by Korea Technology Advancement Co., will build the plant by next year, agencies report.

Nancy Dunne meets the man leading the bid to co-ordinate business interests in the new Gatt round Call for sanctions on the trade-rule breakers

THE DISPUTE settlement mechanism of the General Agreement on Tariffs and Trade ought to be able to bring their complaints to the Gatt. "Otherwise some major trading partners could easily design their own system."

Dr Gyllenhammar is also hoping that the safeguard procedure, which allows countries to give protection to industries hurt by imports, can be reformed. The procedure ought to be made more transparent, he said, and a time limit established either in advance by the Gatt or negotiated on a case-by-case basis.

The REI and the American Business Roundtable, which

represent major executives and corporations in both Europe and the US, last April agreed to join forces to advise the negotiating Gatt teams in Geneva because, said Dr Gyllenhammar, "after all, we are going to execute what they decide."

Although the two groups have not yet reached agreement on what they want from the new round, agreement to seek an understanding on troublesome industrial issues was seen as particularly significant.

It is business, said Dr Gyllenhammar, which is responsible for most of the protection granted, and it is business

which must discipline itself not to go to its political decision-makers and ask for help.

Dr Gyllenhammar seemed less interested in having the participation of Japanese manufacturers in a business advisory group. Japan is an entirely different culture, he said, and thus far, most of its market opening has been "on paper."

Meanwhile, US and European business can make "substantial" contributions to the negotiations. "The Gatt rounds are always political and are run by elected or public officials. It is not easy for them to handle all the detailed issues."

Stressing that his views are

simply his own and he was not speaking for the two business organisations, Dr Gyllenhammar said he hoped the trade negotiations would push for a better definition of subsidies, the costs of which, he admitted, are difficult to quantify.

For example, how much is lost in granting protection when industries fail to restructure? "That is the problem for open trade, that you can often claim that the subsidies that are easily quantifiable are smaller than the loss of revenues you would have had you been highly open," he said.

Dr Gyllenhammar expressed considerable concern about the trade legislation passing through Congress. "A prerequisite for the enormous growth in trade is the openness of the US," he said. "It would be wrong and rather tragic if the US Congress would lose patience and restrict trade."

It was also vital that Congress give the Reagan Administration a broad mandate to negotiate in Geneva. "It would be important for any country (to have a mandate) and certainly for the biggest power in the world," he said. "One can hope Congress won't exploit the opportunity to give a narrow mandate in order to get strong advantages in the negotiations."

URGENT

HOGG ROBINSON SHAREHOLDERS

TSB Group's 600p per share cash offer is conditional on the demerger not being approved at the EGM on 27th July.

Hogg Robinson shareholders have been sent a letter from Sir John Read, TSB Group's Chairman, together with a copy of the announcement of the offer and a proxy form.

If you have not received this information by Tuesday 21st July, please telephone 01-606 7070 during business hours. The information will be sent to you immediately.

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'Steal' Japan technology Indonesian business told

BY JOHN MURRAY BROWN IN JAKARTA

JAPANESE attitudes to technology transfer yesterday came under attack from Indonesia. Historically one of its main trading and investment partners, the country has been accused of "stealing" technology.

Speaking to a seminar in Bandung, Mr Siswono Judo-husodo, a leading member of the Indonesian Chamber of Commerce, advised local companies to "steal" technology where the Japanese partner was only prepared to pass on obsolete industrial systems.

His comments highlight Indonesia's ambivalence towards Japan, a country which has invested more than \$5bn in more than 200 joint venture projects, from manufacturing to plywood, textiles and fish products.

The statement which was quoted by the official news agency seems curiously timed, coming just a week after Sony Corporation of Japan granted a manufacturing licence to a Singapore-Indonesian joint venture company to set up a \$11m electronics plant in west Java.

Air Malta in Boeing deal

BY GODFREY GRIMA IN VALLETTA

AN international banking consortium is financing the \$40m purchase of two Boeing 737-300 aircraft by Air Malta.

The consortium, led by Chase Manhattan Bank, includes Sumitomo Bank, Gulf International, Societe Generale, Banco di Napoli, Istituto Bancario San

Paolo do Torino, and Banque Nationale de Paris.

The 10-year loan accord carries a 0.25 per cent interest over the London Interbank Offered Rate.

The first of the two aircraft, which will bring up the fleet to 10 aircraft, was delivered yesterday.

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UK NEWS

Poor use of computers identified in schools

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

WIDESPREAD FAILURE to make full use of computer technology in schools and a reluctance by older pupils to read are highlighted in a report by England's educational inspectorate published yesterday.

Even where secondary schools are well stocked with books they are often seriously under-used, the independent inspectors say. The use of computers, which might help pupils to make up for what they lose by the lack of reading, remains "disappointingly limited."

These concerns are added to a list of continuing deficiencies which the inspectors have noted in their annual reports on England's state-maintained education service since 1981.

The reports, covering schools, polytechnics and colleges, are usually published in May, but this year - as in 1983 - publication was delayed until after the general election.

The inspectors say that while most of the 97 English local education

authorities' schools and colleges provide satisfactory teaching and equipment and their pupils and students respond well, there are still sharp variations in the quality of education available in different places.

When the inspections on which the report is based were made last autumn, 32 of the authorities were judged to be making unsatisfactory provision in most main aspects of schooling, such as teachers and support staff, accommodation and materials.

The worst difficulties arise from poor management and leadership on the part of town halls, school heads and senior teachers. Another "crucial" barrier to all-round improvement of educational standards is that a sizable minority of teachers expect too little of their pupils and are insufficiently aware of their needs.

Even so, serious deficiencies remain that cannot be overcome solely

by better management of the money and other resources. Some primary schools still have classes with more than 35 pupils, and some authorities find it difficult to recruit teachers for the youngest children.

The inspectors point to worsening shortages of specialists, particularly in science, mathematics, crafts, design and technology.

In a fifth of all classes seen by the inspectors, pupils' work was affected by the poor state of buildings.

Mr Kenneth Baker, Education Secretary, commented that the report was based on inspections made at a time when extra funds budgeted the previous spring for various aspects of education had not worked through to the schools and colleges.

Provision for Education and the Quality of Response in Schools and Colleges in England, 1986. Free of charge from Publications Despatch Centre, DES, Honeypot Lane, Stanmore, Middlesex HA7 1AZ.

Racal takes 2-year pensions 'holiday'

BY DAVID BRINDLE, LABOUR CORRESPONDENT

RACAL, the electronics group, said last night that it was taking a two-year "holiday" during which it would make no contributions to the pension funds of its 32,000 employees.

The group is the latest in a growing list of companies to declare unilateral pension contribution holidays because funds are heavily in surplus. The trend is causing increasing alarm among trade unions.

Lucas Industries, the engineering and aerospace group, has faced industrial action since it declared a second successive two-year holiday earlier this year. Philips, the electronics group, has taken a 18-month holiday.

Racal's move was announced in a statement issued after unions at the Racal Decca subsidiary said they had been told last Friday that employer contributions to the subsidiary's pension fund would be suspended for two years.

The statement said actuarial val-

uation had shown all the group's pension funds to be in "significant surplus." As a result, benefits were being improved in all the fund schemes at an average cost of 66 per cent of the surplus funds being redistributed.

The group was unable to say how much money was being redistributed in all, but it did say that £7m would be spent on two improvements to the Racal Decca scheme.

The statement continued: "Following the advice from the actuaries, Racal management have decided that the pension schemes are adequately funded and the company is in a position to stop contributions for 1987-88 and 1988-89 financial years, while at the same time providing benefit improvements to all the schemes."

Unions at Racal Decca had lodged a nine-point demand for improvements in the subsidiary's scheme - including a cut in the retirement age - to be funded by what they say was a £7.5m surplus.

NatWest move prompts collapse of national bank pay bargaining

BY JOHN GAPPER, LABOUR STAFF

JOINT PAY bargaining in the banking industry collapsed yesterday when the National Westminster Bank withdrew from the Federation of London Clearing Bank Employers and was swiftly followed by the other two other members, Barclays and Lloyds.

NatWest's move took the two other banks by surprise, coming in the middle of industrial action over pay and negotiations on London and territorial allowances for 153,000 staff but it was broadly welcomed as allowing more flexibility in a changing market.

The federation, formed in 1988, imposed a 5 per cent pay deal on about 150,000 clerical staff this year. Although NatWest said the offer would not be improved, Lloyds said that it welcomed the chance "to restore a more normal relationship with our staff."

Mr Tom Frost, NatWest's group chief executive, said the decision to pull out of the federation had been prompted by changes within the financial services industry and the business world which meant that membership had become "incompatible and at times in conflict with our business needs."

There have also been differences between federation members over both this year's pay award, and London allowances. NatWest has faced some recruitment problems

in the capital and pressed for a large increase in allowances than was agreed.

The Banking, Insurance and Finance Union, which represents about 45,000 staff in the three banks, expressed uncertainty at the effect of the collapse of the federation, which has come in the middle of pay negotiations for Channel Islands bank staff.

Mr Bob Carthy, general secretary of the separate National Westminster Staff Association, said he welcomed the development, but believed it would lead in turn to looser ties between the staff associations and unions which comprise the Clearing Banks Union.

The federation had 12 members when it was formed, a figure reduced gradually by mergers and withdrawals. Midland pulled out two years ago and has since negotiated pay and basic working conditions separately.

Mr Nick Cowan, director of the federation, said he believed the decision would inevitably lead to pressure for regional pay variation and could mean "leapfrogging" of pay rates within London, where recruitment problems are most intense.

The Government has been pressing for an end to national pay bargaining both across industries and within individual companies employing staff in different regions.

Costs of BA sale 'might have been less'

By Richard Tomkins

THE NATIONAL Audit Office, parliament's watchdog on government spending, has questioned whether full value for money was obtained in the privatisation of British Airways earlier this year.

In a report to parliament on the share offering, it says that costs were proportionally lower than the average for earlier privatisations. But it asks whether they could not have been lower still without sacrificing the sale's objectives.

The report is the second this month to have criticised privatisation costs. Two weeks ago, the National Audit Office questioned several aspects of the handling of the British Gas sell-off last November.

The latest report finds that the net costs of privatising British Airways were £42.6m, representing 4.7 per cent of the total proceeds. That compares with an average of 5.2 per cent for previous privatisations and 6.4 per cent for British Gas.

One reason why the British Airways issue was proportionally cheaper than British Gas's is that far less was spent on marketing - some £5.10 per applicant compared with £10.59 for British Gas.

However, the report questions whether all the costs incurred on bonus shares and other incentives in the British Airways issue were necessary given that the flotation was aimed at deepening rather than widening share ownership.

It also says it is arguable whether the initial market premium of 88 per cent on the partly-paid share price and 35 per cent on the fully-paid price could be called satisfactory, pointing out that it represented a difference of £31.7m on British Airways's stock market value.

However, it says that the pricing decision had to be taken when share prices generally were volatile, and that the Transport Department took expert advice in making its decision.

Elsewhere, it notes that the department's financial advisers thought the premium would be 10 to 15 per cent on the fully-paid price.

The report also reveals that the Transport Department rejected the notion of a partial tender arrangement in the style of the British Airways Authority (BAA) offer, after being advised against it by Hill Samuel, its merchant bank adviser.

Hill Samuel is reported to have advised that a full tender would discourage small investors and that a partial tender would make underwriting difficult, so leading to lower overall proceeds than a fixed price offer.

National Audit Office Report on Sale of Government Shareholding in British Airways. House of Commons Paper 37. HMSO, £4.50.

Miners return to work

By Charles Leadbeater, Labour Staff

MINERS AT Frickley Colliery, South Yorkshire, voted to call off their week-long strike which has been at the hub of the coalfield's dispute over the operation of British Coal's revised disciplinary code.

Men from Frickley have been picketing 11 pits on the coalfield which have been at a standstill in support of five miners at Frickley who were suspended for alleged breaches of the code.

Only 19 Frickley men voted to continue the stoppage at a meeting of more than two-thirds of the 900-strong workforce.

Branch officials recommended the return to work after the colliery had become increasingly isolated in the dispute.

Mr Steve Tulley, the Frickley National Union of Mineworkers (NUM) branch secretary, said: "We will go back, regroup and rethink our strategy. But if there is any violation or any reprisals, this branch will take immediate strike action."

Mr Tulley said he would be seeking urgent talks with colliery managers over the five men at the centre of the dispute, who allegedly left work early prior to their holidays. "I have no doubt we can sort this out in the next 24 hours," he said.

It seems that national talks over the disciplinary code are unlikely to start soon.

Thatcher discounts 'rent-a-flag' charges

BY IVOR OWEN

KUWAITI tankers could not gain an automatic right to fly the red ensign flag and thus secure Royal Navy protection when in the Persian Gulf danger zone, Mrs Margaret Thatcher, the Prime Minister, indicated in the House of Commons yesterday.

Her initial response to questions by Mr Neil Kinnock, the Labour leader, to allow to ally the concern on the opposition benches about the implications of what Mr Gerald Kaufman, the shadow Foreign Secretary, described as a "rent-a-flag" policy.

On three separate occasions Mr Kinnock pressed for a clear-cut assurance that "no ships other than British ships" would be allowed to fly the British flag.

He insisted that it would be wrong to adopt a similar policy to that of the US by "permitting the re-flagging of non-British ships with the British ensign."

Brushing aside Labour protests, Mrs Thatcher replied: "Let me substitute the word 'flagging' by 'registration'. If other ships apply for British registration then ordinary

conditions apply and we consider each one of them separately."

Mr Michael Martin (Labour) took up the questioning and asked: "Are you inviting other merchant marine vessels, from other countries, to fly the British flag by seeking British registration so that they can be protected by the British Navy?"

The Prime Minister answered: "No. Nor can you interpret anything I said in that light."

Sir Geoffrey Howe, the Foreign Secretary, was also closely questioned about the issue when he made a statement on the decision of the United Nations Security Council to call on Iran and Iraq to observe an immediate ceasefire in the Gulf war.

He was asked by Mr Jonathan Aitken (Conservative) to explain the Government's response to the request made earlier in the day by the Kuwaiti Government for some Kuwaiti vessels to be "re-flagged" under our flag.

Sir Geoffrey said such a matter was not "an inter-governmental matter."

BRITISH AND FRENCH CONTRACTORS COULD SHARE £100M BONUSES

Early-finish incentive for Tunnel builders

BY ANDREW TAYLOR

BRITISH AND French contractors employed to build the Channel Tunnel could gain more than £100m in bonuses if they finish the £5bn project early.

Mr Alastair Morton, British joint chairman of Eurotunnel, which will operate the 31-mile rail tunnel, said yesterday that the consortium would share with the contractors savings achieved by finishing the project ahead of schedule. He said contractors could stand to gain more than £100m by finishing early.

He was convinced that there were sufficient "carrots" and penalties in construction contracts negotiated with the main contractors to ensure that the project would not overrun in terms of time or budget.

The tunnel is scheduled to be completed in 1992 to allow time for stringent testing ahead of the official opening in 1993.

Mr Morton was speaking at the Scottish works of James Howden which has won a £34m contract to provide a tunnel-boring machine for the consortium. The first should be completed shortly and is expected to be in position to start digging by the beginning of December.

By then Eurotunnel is expected to have completed all of its financing arrangements including a £700m international share offer due this autumn.

Mr Morton revealed that three more British banks, Barclays, Lloyds and Standard Chartered, had joined the banking group which has agreed in principle to provide the Channel Tunnel project with up to £5bn in loans and stand-by credits.

Finance would be underwritten by British banks. A similar proportion would be underwritten by French banks with Japanese banks also underwriting a similar amount.

Once the underwriting agreement is signed the banks will proceed with plans to syndicate the loan package with a wider range of international banks.

A rolling international financial road show is planned by the banks and Eurotunnel to aid the syndication efforts. This will begin in London at the end of August and will end two weeks later in Toronto. Centres to be included are New York, Tokyo, Amsterdam and several other leading European capitals and financial centres.

Public service TV advocated for Europe

By Raymond Snoddy

EUROPEAN governments should seriously consider the introduction of a new public service broadcasting channel completely financed by subscription in each country, a new study published yesterday by Logica Consultancy argues.

This would encourage a gradual transition to financing public service television by subscription rather than licence fee as television "viewers" increasingly become television "consumers."

Logica suggests that on such subscription channels new material should be available within six months on non-subscription channels and that news, current affairs and national events should not be broadcast exclusively on subscription channels.

The study forecasts that in future large media group spanning both television production and distribution will take over major parts of the current role of the broadcaster in the 1990s.

Logica believes that at least 25 new commercial television channels will be on the way in Europe.

Television Broadcasting in Europe: Towards the 1990s. Marketing Services Logica, 64 Newman Street, London W1A 4SE. £65.

US law firm establishes link with City of London solicitor

BY HAZEL DUFFY

FINLEY KUMBLE, a fast-growing US law firm, is forming a formal association with Berwin Leighton, a City of London solicitor.

The agreement is the first between American and British lawyers since the Law Society liberalised its rules earlier this year. It provides for fee-sharing between the partners of the two firms on legal services provided jointly but stops short of a merger because the rules do not allow British firms to go into partnership with overseas ones.

The arrangement will be keenly watched in London. In March the announcement by two big City law firms, Clifford Turner and Coward Chance, that they were to merge, surprised the City. This attempt by Berwin Leighton to create an international law business marks a new direction by which other City solicitors might seek to bolster their future in the face of change in the profession.

Berwin Leighton, itself formed from a merger in 1970, is in the middle league of City firms. It has 40 partners in London and New York, where it has a branch office, but is not big enough to expand much beyond its present horizons.

Mr John Fenner, chairman of partners, explained the reasons for the association: "The law business is changing. There is the question mark over whether multi-disciplinary practices will be permitted, the freedom which has come to the Stock Exchange and the City generally, and pressures on international business."

"This is a positive step to build a firm which will meet the international challenges in the coming years." Both firms claim that the arrangement will be to the benefit of their clients as well as the firms themselves. Joint teams will be formed to give legal advice and prepare documentation for clients where British and American law are involved, saving the clients the expense and time of engaging two firms.

For the firms, the association provides instant access to each other's domestic territory - something which takes much longer to reach through the mechanism of setting up branch offices - if it can be achieved at all.

Finley, Kumble set up a London office last year. The managing part-

ner is Mr Robert Albert, an American lawyer who has worked in London since the 1960s. He said: "It is only through an association like this that you can have the impact on the local market."

It also opens up to the American firm access to the key centres in south-east Asia - Singapore and Hong Kong - and the Middle East, apart from Saudi Arabia, where British law holds sway.

American Lawyer magazine last month put Finley, Kumble's fee income at more than \$150m (£83.6m) in 1986, making it the second largest law firm in the US. It is young in comparison with the established American law firms, and has a reputation for being very aggressive. Growth has been almost entirely by acquisition, from six to more than 800 lawyers in less than 20 years, and it now has 14 offices in the US.

Finley, Kumble approached several big City firms with a view to an association, but found them not willing or ready for such a step. Mr Robert believes, however, that several medium-sized firms are ready and that there will be similar associations "once the ice has been broken."

This advertisement is for informational purposes only. It is not intended and is not under any circumstances to be construed as an offer to sell or as a solicitation of an offer to buy any securities of the Company.

USAIR FINANCE N.V.

Has called for Redemption all the
7% Convertible Senior Subordinated Debentures
due September 1, 1998

CONVERSION PRIVILEGE EXPIRES AT 5:00 P.M., NEW YORK CITY TIME ON AUGUST 20, 1987.

USAIR FINANCE N.V. (the "Company") has called for redemption on August 20, 1987 (the "Redemption Date") all of the Company's outstanding 7% Convertible Senior Subordinated Debentures due September 1, 1998 together with all appurtenant coupons maturing subsequent to the Redemption Date (the "Debentures"), at a redemption price of 103% of their principal amount plus accrued interest from September 1, 1986 to the Redemption Date in the amount of \$67.86, for a total redemption price of \$1,097.86 (the "Redemption Price") for each \$1,000 principal amount of Debentures.

On and after the Redemption Date interest on the Debentures will cease to accrue. After the Redemption Date, holders of the Debentures will not have any rights as such holders other than the right to receive \$1,097.86 per \$1,000 principal amount of the Debentures upon surrender of their Debentures.

The Debentures are convertible until 5:00 p.m., New York City time, on August 20, 1987, at a conversion price of \$34.875 per share, into approximately 28.67 shares of Common Stock for each \$1,000 principal amount of Debentures.

BASED UPON CURRENT PRICES, THE MARKET VALUE OF THE SHARES OF COMMON STOCK INTO WHICH THE DEBENTURES ARE CONVERTIBLE IS SIGNIFICANTLY GREATER THAN THE REDEMPTION PRICE (AND ACCRUED INTEREST) OF THE DEBENTURES. SO LONG AS THE MARKET PRICE OF THE COMMON STOCK EXCEEDS \$38.4, A DEBENTURE HOLDER WOULD RECEIVE, UPON CONVERSION OF DEBENTURES, COMMON STOCK AND CASH IN LIEU OF A FRACTIONAL SHARE HAVING A GREATER MARKET VALUE THAN THE CASH WHICH SUCH HOLDER WOULD RECEIVE IF HE SURRENDERED HIS DEBENTURES FOR REDEMPTION.

Federal Income Taxes

Payment pursuant to presentation of Debentures for redemption to the paying agent in New York, New York or other payment made within the United States, including by transfer to a United States dollar account maintained by the payee with a bank in the Borough of Manhattan, the City of New York, may be subject to reporting to the United States Internal Revenue Service (IRS) and to backup withholding of 20% of the gross proceeds (including premium and accrued interest) if the payee fails to provide the paying agent with an executed IRS Form W-9 in the case of a non-U.S. person or an executed IRS Form W-9 in the case of a U.S. person. No such backup withholding will be required in the case of presentation of Debentures for redemption with a paying agent outside of New York, New York, if payment is made outside the United States. Information reporting to the IRS will only be required upon such payment made outside the United States if made to U.S. persons in certain cases. Those holders who are required to provide the correct taxpayer identification number on IRS Form W-9 and who fail to do so may also be subject to an IRS penalty of U.S. \$50. Accordingly, please provide all appropriate certification when presenting the Debentures for payment.

Manner of Conversion or Redemption

The Debentures will become due and payable on the Redemption Date and, upon presentation and surrender of the Debentures, the Redemption Price will be paid on and after the Redemption Date. Debentures should be presented and surrendered for redemption at any of the paying agencies listed below. A form of Letter of Transmittal for use in transmitting your Debentures is available at any of the paying agencies listed below.

The Debentures may be converted into shares of Common Stock of USAIR Group, Inc. at the conversion price (with Debentures taken at their principal amount) of \$34.875 per share of Common Stock. Cash will be paid in lieu of fractional shares. Each Debenture holder who wishes to convert his Debentures should deposit his Debentures and a written notice to convert (the form of which notice appears on the reverse side of the Debenture and on the form of Letter of Transmittal) at any of the following agencies:

For Conversions Only:	By Mail:	For Redemptions Only:
The Chase Manhattan Bank, N.A. Bond Conversion Department Box 2020 1 New York Plaza New York, New York 10081		The Chase Manhattan Bank, N.A. Corporate Bond Redemptions Box 2020 1 New York Plaza New York, New York 10081
For Conversions Only:	By Hand:	For Redemptions Only:
The Chase Manhattan Bank, N.A. Bond Conversion Department 1 New York Plaza—14th Floor New York, New York 10081		The Chase Manhattan Bank, N.A. Corporate Bond Redemptions 1 New York Plaza—14th Floor New York, New York 10081

For Conversions and Redemptions:

By Hand:
The Chase Manhattan Bank, N.A. London Branch Woolgate House, Coleman Street London, EC2P 2HD England
Banque de Commerce, S.A. Main Office 51/52 Avenue des Arts B-1040 Brussels Belgium
Chase Manhattan Bank (Switzerland) Genèvestrasse 24 Postfach 162 8027 Zurich Switzerland
Chase Manhattan Bank Luxembourg, S.A. 47 Blvd. Royal, CP240 Luxembourg
Nederlandse Credietbank, N.V. Herenstraat 438 Amsterdam The Netherlands
Berliner Handels-und Frankfurter Bank 10 Bockenheimer Landstrasse Frankfurt West Germany
Société Générale 29 Boulevard Haussmann 75009 Paris France

The Company has made standby arrangements with Shearson Lehman Brothers Inc. (the "Purchaser") pursuant to which the Purchaser has agreed, subject to certain conditions, to purchase from the Company such number of shares of Common Stock as would have been issuable upon conversion of Debentures which either have been surrendered for redemption or have not been surrendered for conversion on or prior to the Redemption Date. The purchase price of such shares will be an amount equal to the aggregate total redemption price of such Debentures.

USAIR FINANCE N.V.

The Purchaser is:

Shearson Lehman Brothers Inc.

July 21, 1987

HOGG ROBINSON SHAREHOLDERS

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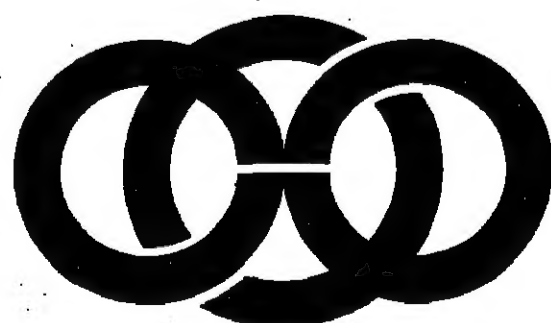
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Latest Price 628*_p PER SHARE

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Shareholders should post completed proxy cards immediately or deliver them
by hand to Baring Brothers & Co., Limited, 145 Leadenhall Street, London EC3,
up to 10.00 a.m. on Saturday 25th July 1987



HOGG ROBINSON

UK NEWS

Mercury raises leased line telephone charges

BY DAVID THOMAS

MERCURY COMMUNICATIONS, the fledgling rival to British Telecom, has announced its first significant price increase — substantially higher charges for leased lines.

Most large companies and City businesses use such lines and pay a rental for them, usually covering a period of a year, rather than paying for each call.

Mercury's increases are greatest for leased lines covering a short distance, which are mainly used by customers in the City.

Customers may accuse Mercury of taking advantage of BT's recent loss of market share, but it has captured customers before announcing the rises.

Mercury denied these suggestions yesterday and said it

had been considering the price changes for some time. Its leased line charges remained substantially below BT's and it was its first price increase in four years.

The new prices are contained in a complex package with different charges for different types of leased line service.

The largest increase is for digital lines of less than two kilometres, where the annual rental is more than trebled from £222 to £670, though Mercury said few customers used this service.

Voice lines of less than 2 km, widely used in the City, go up from between £180 and £222 to £350 a year.

Trunk routes of up to 50 km are increased from £1,000 to £12,500. Those over 50 km go

up by an average of 3 per cent. Mercury said it was increasing the charges to bring them into better balance with its costs.

It has told the Office of Telecommunications, the industry's regulatory watchdog, it has been losing money on some of its leased line services.

Costs, particularly in the City, had risen rapidly recently, and its charges had been set four years ago when Mercury was just launching itself.

The company claimed that most of its leased line rentals would still be substantially lower than BT's — by about 20 per cent in most cases but by more than 200 per cent in some.

Mercury has notified OfTel of the changes but OfTel would intervene only if it thought that the new charges were substantially out of line with costs.

Oldest N-plant to continue in service

By David Fehoko, Science Editor

BRITAIN'S oldest nuclear power station, Bradwell in Essex, is expected to continue in service at least until 1992, when it will be 30 years old.

Like all the first-generation nuclear plants, it was designed for a life of 20 to 24 years.

A long-term safety review of the station's two Magnox reactors, conducted by the Central Electricity Generating Board on behalf of the Nuclear Installations Inspectorate, has concluded that it is safe to continue in operation, and subject to certain conditions can continue at least until 1992.

In its report on the long-term safety review, published yesterday, the inspectorate sets out 17 key requirements for continued operation, and data by which it expects them.

Failure to meet these dates could, in the most serious cases, mean that the nuclear installation will be "down-rated," involving a reduction in operating pressure and hence a lower electrical output from the station.

The CEGB said it was confident it could meet the dates and believed the cost of fulfilling the requirements would be £2m to £5m.

The CEGB said the main costs would be in man-hours devoted to theoretical studies that demonstrated the continuing integrity of the pressure circuit and ability of the reactors to stand up to an earthquake.

Mr Eddy Ryder, chief nuclear inspector, called the exercise a nuclear stock-taking to see how the station had measured up to current standards.

"And it has measured up pretty well," he concluded.

Mr John Birmingham, director-general of the Health and Safety Commission, said the report, which was the first of its kind, was a "valuable contribution to the safety of the nuclear industry."

But it says the inspectors require the CEGB to make more effort to rationalise and extend its programmes for systematic examination of plant and monitoring for ageing effects.

It says the inspectors have concluded that the review on the effects of ageing and in-service wear which are not accessible for renewal.

Bradwell nuclear power station. The findings of NIT's assessment of the CEGB's report are being reviewed by HMSO. £5.00.

Judge questions continuation of Spycatcher injunctions

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

A HIGH COURT judge yesterday questioned the value of continuing injunctions stopping newspapers publishing material derived from Mr Peter Wright, the former MI6 officer.

Sir Nicholas Browne-Wilkinson, the Vice-Chancellor, suggested that the damage the Government had tried to avoid had been done now that Mr Wright's book *Spycatcher* had been published in the US.

The attempt to demonstrate that the secret service was leak-proof had failed, he said.

Sir Nicholas is expected to give judgment today on the application by The Guardian and Observer newspapers for the ending of temporary injunctions banning them from publishing Mr Wright's allegations.

It has been accepted that the fate of a similar injunction obtained last week against The Sunday Times will also be decided by the judge's ruling.

Mr John Mummery, for Sir Patrick Mayhew, QC, the Attorney-General, said the situation had not been essentially changed by the US publication of *Spycatcher* or the fact that copies of it had "infiltrated" into the UK.

There were serious issues to be dealt with at the full trial of the case and if the temporary injunctions were discharged, the Crown would be deprived of the chance of a permanent order at the trial.

Members of the secret service owed an absolute and stringent lifelong duty of confidentiality to the Crown, said Mr Mummery. "You cannot run an effective secret service if any member of it is free to publish information he has acquired as a member."

If there were further publication in the UK of material from Mr Wright and the Government was seen to be unable to prevent it, there would be an increased loss of confidence in the security services.

Sir Nicholas said he could not understand why security service officers in the UK were asked to write about their work when in other countries they could. However, he accepted that the Court of Appeal had said there was total protection against a member of the secret service writing anything.

"I am bound to say it is beyond me," the judge commented.

He said circumstances had changed since the injunctions were granted last July and that the balance between keeping the secret service secure and the freedom of the press had to be reassessed.

Sir Nicholas said the Attorney-General might regard Mr Wright as a "polluted" source of information, but the fact was that his information was now public and "quite a lot of people know about it."

Mr Mummery said that was not the point. Only a few thousand people had seen *Spycatcher* and, unlike the newspapers, they were not trying to disseminate it to millions more.

Sir Nicholas asked whether that mattered, bearing in mind that the original purpose of the orders against the Guardian and Observer had been to stop unfriendly foreign security services gaining confidential information from Mr Wright or friendly ones losing confidence in Britain's ability to keep secrets.

He told Mr Mummery that if there were a way of keeping the secret service leak-proof, he would support him totally, but the object of the injunction had not been achieved.

Bulgarian military attache expelled

By Our Foreign Staff

BULGARIA'S military attache in London has been expelled for suspected espionage. Col Ivan Pavlov Djambov was yesterday given 14 days to leave because of what the Foreign Office described as "activities incompatible with his status," the phrase normally used to indicate spying. He had lived in Britain since November 1985.

The seriousness with which the Foreign Office views Col Djambov's alleged activities may be gauged by the fact that this is the first expulsion of a Bulgarian diplomat on record, and comes when relations between London and Sofia were considered to be improving.

Bilateral trade has been increasing, and there have been several ministerial visits in the past two years.

The expulsion is not expected or intended to disrupt this. The Foreign Office has insisted that a replacement for Col Djambov will be perfectly acceptable so long as cleared by the UK authorities. No ceiling on the number of Bulgarian diplomats in London is being contemplated.

The suggestion in Whitehall is that the military attache's activities breached the limit of what is tacitly considered acceptable for a diplomat in his position, and that a rap on the knuckles was felt to be in order.

No comment was available from the Bulgarian Embassy last night.

Tourism chief happy despite summer rain

By David Churchill

THE TYPICAL English summer weather — rain, rain, and more rain — came at an embarrassing moment for the English Tourism Board.

While Mr Duncan Hunk, board chairman, extolled the beauty of the English coastline last year, in spite of Libya and Chernobyl — England's seaside landladies were counting the cost of yet another day of scattered showers.

Even the short heatwave a few weeks ago did little to counter the wet spring and early summer weather which dampened bookings in many seaside resorts. At the same time travel agents are reporting an increase in overseas package holiday bookings.

However, the tourism trade seems to be remarkably resilient. Last year about 12.7m foreign visitors came to England. This was fewer than the record year of 1985, but they spent £4.5bn — almost the same as the year before.

Holiday trips by British residents in England totalled 106m last year, compared with 105m the year before. Expenditure on about £10m more per week in England last year, to reach total spending of some £5.6bn.

Thorn EMI wins £5m radar work

By Lynne McLean

THORN EMI Electronics was yesterday awarded two Ministry of Defence contracts worth more than £5m for experimental battlefield surveillance radar.

The contracts for the airborne stand-off radar (ASTOR) could lead to production contracts worth tens of millions of pounds, according to the company.

Ferranti and Marconi, a GEC company, two other electronics companies, also competed for the orders.

The contracts will provide the MoD with two based radar systems for evaluation. One is derived from Thorn EMI's Skymaster radar. This is fitted in the Pilatus Britten-Norman Defender twin engine aircraft and can pick up moving targets at low levels.

The other system for evaluation is based on the Skymaster and uses high altitude synthetic aperture radar techniques for spotting low targets. This radar is currently fitted in a Canberra aircraft.

City 'poised to invest in housing'

BY RALPH ATKINS

INVESTMENT BY City institutions could double spending by housing associations on homes for low-income families under a bill expected to be published in November.

The Housing Corporation, which supervises 2,652 housing associations, said yesterday private investors could eventually be induced to provide £700m a year towards housing for the homeless and those with special needs.

The bill is expected to include measures to stimulate the private, rented housing market and make it more attractive to institutional investors. It will also extend the corporation's power to combine private sector and public funds for housing projects.

The bill's provisions would revolutionise the role of housing associations which provide and manage homes for people unable to afford to buy or rent a suitable home.

Sir Hugh Cubitt, corporation chairman, said the indications were that City investors would be prepared to invest in

private rented housing if the market was made more attractive.

"I think there is generally a feeling in the City that it ought to be doing more about housing. There is a degree of civic consciousness provided the investors can get a proper return on their investment," he said.

The corporation is experimenting with housing projects using only 30 per cent public finance but these will account for less than 10 per cent of its total budget. Under the proposed legislation, which would come into force in 1989, projects combining public and private finance would gradually increase in importance.

But the great possibilities are great if methods of financing can be devised which prove genuinely attractive to investing institutions, as well as socially supporting.

The proportion of such housing funded privately would vary between projects allowing more public support in high-cost areas such as London.

About £150m might be derived from private investors in the first year.

Measures expected to be included in the bill include the abolition of fair rent legislation for new lettings and changes in the way Housing Corporation grants are provided.

The corporation estimates these changes will increase rents by an average of 20 per cent, but Sir Hugh said families which could not afford this rise should be compensated through increased housing benefits.

He denied the bill would lead to exploitation by profit-seeking landlords. "I do not think there is any danger of that," he said. "If you have a housing association as a landlord, they are non-profit-making organisations."

However, the corporation is anxious that the legislative package is accompanied by an increase in its annual grant, if only to assure critics that private funds will not just be a substitute for government grants.

NatWest to cut mortgage rate

By Hugo Dixon

NATIONAL WESTMINSTER, the biggest clearing bank, yesterday announced a cut in its mortgage rate for existing borrowers from 11.25 per cent to 10.15 per cent from August 1.

Last month NatWest lowered its mortgage rate for new borrowers to 10.5 per cent but the latest move came as a surprise as bank base rates are expected to rise rather than fall. Other lenders are not expected to follow suit.

NatWest's decision was taken on the assumption that base rates would remain at 9 per cent where it still makes a wide profit margin on its mortgage lending.

Brewer to close packaging plant

GREENALL WHITLEY, the brewer which recently merged with Davenports, will rationalise the group's brewing and packaging operations with the loss of 78 jobs.

The Davenports packaging plant will be closed and canning and plastic bottling facilities for the take-home market will move to the Cambrian soft drinks factory in Bolton, Lancs, on December 11.

The Wern brewery will close next February and production will be transferred to Birmingham.

Southampton city shops project to cost £50m

BY PAUL CHEESBRIGHT, PROPERTY CORRESPONDENT

SOUTHAMPTON City Council's drive to make its own centre a major shopping area, spreading out-of-town retail centres has been boosted by Arlington Securities and Broderick Properties' decision on a joint shopping scheme.

The companies are to spend £50m on a £450,000 sq ft project which will incorporate premises for existing main retailers in the district which include Tyrrell and Green of the John Lewis Partnership, C&A and Plummers.

The council has urged completion of the project in the

belief that a scheme of such magnitude would compete with any likely development out of town. This suggests that planning permission will be given quickly.

Associated British Ports and a partnership of Provincial Developments and J. J. Gallagher, have filed a planning application for a 200,000 sq ft retail warehouse pack with a food store outside the docks, near the town centre.

Southampton council has been seeking to mount a national campaign against out-of-town shopping centres.

Plan for Bristol docklands

FINANCIAL TIMES REPORTER

BRITISH RAIL, South West Gas and Bristol City Council plan to form a consortium to develop a site in Bristol's derelict city docks described by the council as "one of the most attractive waterfront development opportunities in Britain."

The council's land and general purposes committee is to discuss the project tomorrow.

The 20-acre site at Canon's Marsh, half a mile from the city centre, adjoins a 15-acre site for which Lloyds Bank has planning permission to build an administrative headquarters, to

replace its London office.

The 20-acre site has already attracted the interest of at least five developers.

The leading plan is for a £150m leisure complex to include a 30,000-seat covered superbowling pitch and other sports facilities.

The council's plan is to build an Olympic-sized swimming pool in the West Country, an exhibition hall larger than any single hall at the National Exhibition Centre in Birmingham, a cinema, theatre, hotels, shopping mall, public houses and waterfront houses and flats.

Bus industry jobs threatened

By Kenneth Gooding, Motor Industry Correspondent

THE 20,000 jobs in the bus and coach manufacturing industry are threatened unless the Government agrees to a long period of stability, the Society of Motor Manufacturers and Traders said yesterday.

Over the past 20 years the industry has been subjected to "an unwarranted level of government interference" which had caused considerable upheaval in demand for buses and coaches.

Calling for a term of stability to allow manufacturers to plan ahead, the society's director said: "We want the Government to establish a clear and consistent transport policy and to carry out a national survey on the impact of deregulation on so operators can confidently plan their vehicle requirements and manufacturers can organise their production to meet them."

OBITUARY

Maurice Green: journalist

MR MAURICE GREEN, the former editor of the Daily Telegraph who died at the weekend aged 80, was one of the band of young men in the 1930s who helped to lay the foundations of modern financial journalism.

He was appointed editor of the Financial News at the age of 28 in 1934 and with Mr Brendan Bracken, its chairman, was credited with increasing the paper's performance to such an extent that it was able to raise its advertising rates to match those of The Times and the Financial Times.

The Financial News was taken over by the FT in 1945 although it was the tradition of the Financial News which heavily influenced the character of the Financial Times.

Mr Green was hired by Mr Bracken after his Oxford contemporary, Mr Randolph

Churchill, had described him as someone who had got a double first at Oxford in spite of going out drinking every night.

The drinking was exaggerated by Churchill, but the intellect and the ability to perform under pressure without ever appearing to be in a hurry was not.

Under Mr Green, the Financial News was widely seen as a paper of fair and courage, if not quite of the same status as a paper of record as the FT.

Mr Green and Mr Otto Clarke, his chief leader writer and head of the Lex column, came up with a particularly pioneering innovation on July 1, 1935 which has stood the test of time. They produced the FT 50-Share Index which in due course would become the FT Ordinary Share Index.

Mr Green had the rare quality of being able to stand up to Mr Bracken without antagonising him and even managed to persuade his parsimonious chairman to pay Financial News journalists the *NUJ* rate.

Mr Green was on The Times for 18 years, the last eight of which he was assistant editor and edited the Daily Telegraph from 1964-74.

He was also for many years on the press panel which selects the winners of the annual Wincott awards for financial journalism.

The awards were a link with his early days on the Financial News. Mr Harold Wincott was hired as a sub-editor on the paper in 1930 before going on to become probably the leading financial journalist of his day.

Onshore oil licence round announced

BY LUCY KELLAWAY

THE GOVERNMENT yesterday announced a second round of onshore licensing in spite of the declining interest in onshore oil since the first round in 1985.

In a parliamentary answer, Mr Peter Morrison, the new Energy Minister, said companies would be invited to bid for unlicensed onshore areas and for some areas just off the coast.

The announcement comes as onshore exploration has hit its lowest level for nearly four years. In May, there was no activity onshore.

The Department of Energy, which decided to hold the round

after consultation with the industry, is thought to be preparing for a small number of applications.

However, some of the largest onshore players have recently signalled a continuing commitment to onshore oil. In a deal announced earlier this month, BP acquired the bulk of Trafalgar House's onshore oil assets and is believed to be keen to expand.

Mr Morrison said: "Now is the right time to invite new applications for onshore licences so that exploration momentum can be maintained. Operators have made substantial progress on the first round licences and

there is evidence of continuing demand for new licences to warrant a round."

Applications, which are due by October 28, are being invited for 10 km by 10 km blocks on the Ordnance Survey grid, but non-standard blocks can also be applied for.

The first round met with an enthusiastic response, with 117 companies bidding for 446 blocks, of which 96 were licensed. Since then, 11 exploration wells have been drilled.

Onshore drilling has become less popular since then due to unfavourable tax changes and the failure of most companies to make significant discoveries.

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20

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NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Fiscal and Paying Agency Agreement dated as of August 16, 1983, under which the above-described Notes (the "Notes") were issued, and pursuant to paragraph 5(a) of the terms of the Notes, J. P. Morgan International Capital N.V. has elected to and will redeem on August 16, 1987 (the "Redemption Date") all outstanding Notes (U.S. \$150,000,000 aggregate principal amount), at the redemption price of 101% of the principal amount thereof (the "Redemption Price") plus accrued interest to the Redemption Date. J. P. Morgan International Capital N.V. states that all conditions precedent to the redemption of the Notes have occurred.

On August 16, 1987, the Notes will become due and payable as aforesaid in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. Said Notes will be paid, upon presentation and surrender thereof with the Note in bearer form, all coupons appertaining thereto maturing after the Redemption Date, at the option of the holder either (a) at the Corporate Trust Office of Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, New York 10015 (for registered Notes only), or (b) subject to applicable laws and regulations, at the main offices of Morgan Guaranty Trust Company of New York in Brussels, Frankfurt am Main, London or Paris, or Kredietbank S.A. Luxembourg in Luxembourg, Morgan Bank Nederland N.V. in Amsterdam or Swiss Bank Corporation in Basle. Payments at the office of any paying agent outside of the United States will be made by a check drawn on a dollar account or by transfer to a United States dollar account maintained by the holder with a bank in New York City.

Any payment made by transfer to an account maintained by the payee with a bank in the United States may be subject to reporting to the United States Internal Revenue Service (IRS) and to backup withholding at the rate of 20% if payee not recognized as exempt recipients fail to provide the paying agent with an executed IRS Form W-9, certifying under penalties of perjury that the payee is not a United States person or an executed IRS Form W-9, certifying under penalties of perjury that the payee's taxpayer identification number (employer identification number or social security number, as appropriate). Those holders who are required to provide their correct taxpayer identification number on IRS Form W-9 and who fail to do so may also be subject to a penalty of 50%. Please therefore provide the appropriate certification when presenting your Notes for payment.

Coupons due August 16, 1987 should be detached and collected in the usual manner. On and after August 16, 1987, interest shall cease to accrue on the Notes, and the coupons for such interest maturing after said date shall be void, and the sole right of each holder shall be to receive the Redemption Price plus interest accrued to the Redemption Date.

J. P. MORGAN INTERNATIONAL CAPITAL N.V.

By: MORGAN GUARANTY TRUST COMPANY

as sole agent, Fiscal and Paying Agent

Dated: July 14, 1987

NOTICE OF REDEMPTION

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U.S. \$100,000,000

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Notice is hereby given that pursuant to Paragraph 8(a) of the Notes and Section 4 of the Fiscal and Paying Agency Agreement dated as of August 19, 1982 between GMAC Overseas Finance Corporation N.V. (the Company) and Chemical Bank, Fiscal and Paying Agent, the Company hereby gives notice of its election to redeem all of its 14½% Notes due August 19, 1988. The date fixed for redemption of all of the principal amount thereof together with accrued interest to the date of redemption. After August 19, 1987 the Notes will cease to accrue interest. The Notes will be redeemed upon presentation and after the date fixed for redemption at the principal office of the fiscal agent, Chemical Bank, 55 Water Street in New York City or the principal offices of Chemical Bank in London, Frankfurt, Paris and Brussels and Banque Generale de Luxembourg S.A. in Luxembourg. THIS IS NOT A TAX RELATED REDEMPTION NOTICE ARISING OUT OF THE RECENT TERMINATION OF THE TREATY BETWEEN THE UNITED STATES AND THE NETHERLANDS ANTILLES.

GMAC Overseas Finance Corporation N.V.

Dated: July 15, 1987

MANAGEMENT

Daimler-Benz trucks

Looking at everything again

Kenneth Gooding explains the significance of the industry leader's strategic re-think

THE MAJOR rationalisation currently sweeping the world heavy truck industry has not left Daimler-Benz of West Germany untouched. A new management team, dedicated solely to the Mercedes commercial vehicle business, has been installed and already it is signalling important shifts in direction.

Across the whole spectrum of Daimler-Benz's commercial vehicle activities "we are looking at everything again," says Jürgen Schrempf, who is responsible for sales in the new commercial vehicle division of the world's largest truck producer.

"Just because we said something was not feasible five years ago doesn't mean it still is not feasible."

The latest reorganisation of the Daimler-Benz top management team following the decision of Werner Breitschwerdt to resign early from the chairmanship will have a direct impact on the commercial vehicle division. Helmut Werner, chairman of the Continental Tyre Company, is to join the Daimler-Benz board and take responsibility for the division.

But the new strategy is unlikely to change much, particularly as Schrempf is to become Werner's deputy.

This suggests that Daimler-Benz's strategic re-think could well emerge as one of the most important changes in the heavy truck industry in the past year or so—even if it lacks the drama of some other happenings.

Those events included General Motors, the world's biggest automotive group and one which once hoped to challenge Daimler-Benz's heavy truck market leadership, virtually giving up supplying heavy trucks to civilian customers, closing down its Bedford truck operations in Britain and handing over its heavy truck business in the US to Volvo of Sweden.

Ford, the second-largest automotive group, has eased its way out of the European heavy truck business by transferring its operations to Iveco, the Fiat-owned company.

The impact of this change was felt mainly in the UK, which was also affected by another deal—when Daf of the Netherlands acquired Leyland Trucks from the UK government.

Apart from the lack of drama, the changes within Daimler-Benz's truck operations have also been obscured by the restructuring which followed the group's acquisition of the AEG electronics company, and Daimler, the aerospace business, last year with scarcely a pause for breath between the deals.

The subsequent decision to split the commercial vehicles and car operations apart for the first time seemed just a logical step in the necessary restructuring.

But Dr Gerhard Liener, the management board member now responsible for the commercial vehicle division but who is to

become Daimler-Benz's new finance director, says the split was already under consideration because the group's sales of Mercedes cars and commercial vehicles world-wide had reached about DM 50bn a year (\$28bn) and Daimler-Benz "was in danger of losing flexibility."

Another director, Ernst Goehring, deputy head of commercial vehicle research and development, says that divisionalisation is already having a beneficial impact—particularly by speeding up decision-making.

Liener also points out that the two sides of the vehicles business are no longer in step, reflecting the economic cycles.

Since 1980 the commercial vehicle operations have been gripped by recession whereas demand for Mercedes cars has risen strongly and steadily.

This is simply illustrated by the fact that last year cars accounted for 48 per cent of Daimler-Benz's total DM 65.5bn turnover and the commercial vehicle operations for 27 per cent. In 1979-80 the positions were reversed.

However, Liener stresses that the diversification into electronics and aerospace and other changes in no way signal any diminution of the importance in which Daimler-Benz views the commercial vehicle operations. "The commercial vehicle business is, and remains, one of the mainstays of our company. We are absolutely determined

that this will remain the case in the future too," he says. Werner will take over a truly global business. Daimler-Benz has five commercial vehicle factories in West Germany (at Mannheim, Wörth, Gaggenau, Düsseldorf and Kassel) and production and assembly plants in Argentina, Brazil, Mexico, the US (where it owns the Freightliner company), South Africa, Nigeria, Spain, Turkey, Saudi Arabia, Australia and Indonesia.

Last year the group's commercial vehicle output increased by 10 per cent to more than 226,000 and should increase again this year to about 235,000, still well below the peak 273,000 in 1980. Included in the 1986 total were 113,100 trucks of 6 tonnes gross weight and over, giving Daimler-Benz world leadership and putting it well clear of Isuzu of Japan, with 100,588, and Ford, 92,552.

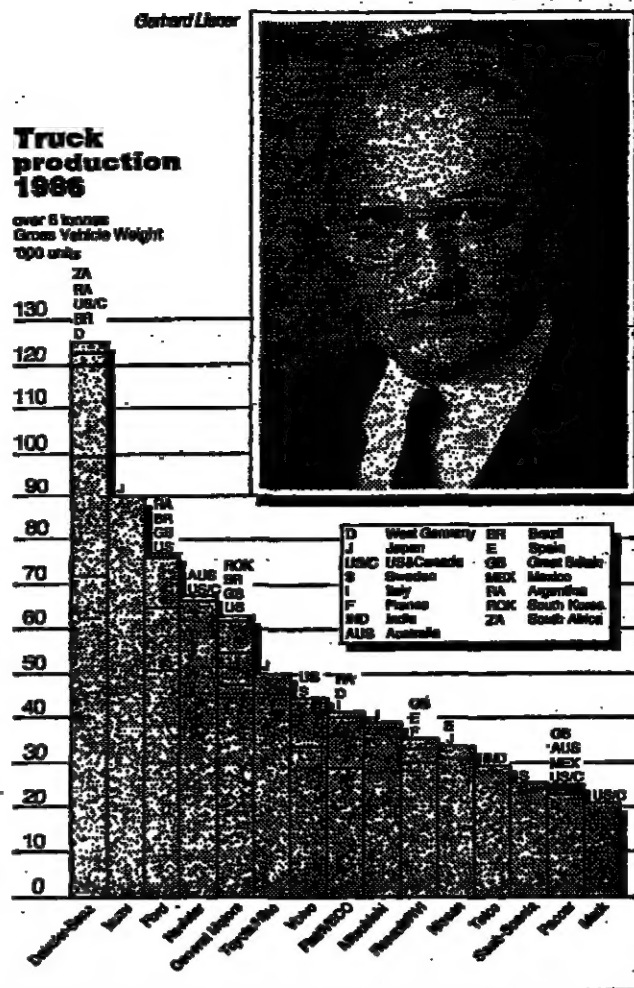
The group has never separated—and probably never will—the financial results of the cars and commercial vehicle businesses. Daimler-Benz's rivals suggest it has been losing about DM 500m a year recently on its European heavy truck operations—a figure about which Liener studiously avoids making any comment. He does insist, however, that the total commercial vehicle division is profitable.

Liener is convinced that the worst times are behind the truck industry because oil prices will rise steadily in the next few years and enable the oil-producing countries in the Middle East and Africa to start buying trucks again.

"But the recovery will not be like the rush we saw in the past. That was not normal. But zero demand is not normal either."

The bad news for the European truck producers, says Liener, is that they will not be able to take much advantage of any recovery in either the Opec countries or the developing nations because of competition from the Japanese.

"Probably it will be impossible in the future for any Euro-



pean to export to those markets outside Europe because the Japanese have improved the quality of their vehicles and also are expanding in South-East Asia which they see as their home market. The Japanese are also well-entrenched in Africa and even in the US, but they have been stopped there recently—fortunately—by the rise in the value of the yen."

Liener suggests that Daimler-Benz will rise to this challenge by implementing a global strategy—"we are probably in a better position than any other manufacturer in the world to apply a global strategy to the commercial vehicle business."

"This may mean integrating individual locations into an internationally co-ordinated structure in order to exploit the advantages of location, or it may mean serving particular markets with locally-developed vehicles oriented to the regional markets," says Liener.

Picking up this theme, sales director Schrempf says it might be possible, for example, for Daimler-Benz to integrate production in Brazil, Mexico and the US in some way.

Daimler-Benz produces about 6,000 vehicles a year in Argentina and 50,000 in Brazil. The Brazilian subsidiary has already developed a new generation of bonneted trucks to be launched next year gradually to replace the entire range in Argentina and Brazil.

"Brazil is interesting not only as a market but also as a production site for supplying difficult export markets which we can no longer satisfactorily serve from Germany—for example the Far East and the US," says Liener.

The group has also made plans which should allow it to hold on in Malaysia where it is the sole remaining European truck maker in an area dominated by the Japanese.

There seem to be few sacred cows the group would not be willing to slaughter. Even its dedication to vertical integration and the production of its own key components—such as engines, gearboxes and axles—is no longer sacrosanct.

The group is still intent on filling gaps in its geographic coverage. It has a new subsidiary in Japan which will follow a niche-marketing policy and start in a small way in

the autumn with vans fitted out as luxury, air-conditioned, mid-coaches.

Negotiations have been going on with the Chinese about assembly of heavy trucks and studies made of the Indian commercial vehicle market.

Schrempf says: "If we can't sell 100 per cent of a truck in a country but could sell 20 per cent of a truck and make bucks, in future we will take the 20 per cent."

Liener estimates that the heavy truck industry's excess production capacity is about 100,000 a year in Europe, more in the US and probably even more in Japan—although he has no hard statistics to back his hunch about the Japanese industry.

He suggests Daimler-Benz has made its contribution to cutting capacity in Europe "but almost in an invisible way" because much of the capacity has not been closed down but is being used instead by the group for car assembly and car components. This has prevented

Commitment comes in many forms

BY MICHAEL SKAPINKER

HOW MANY decisions, whether trivial or momentous, does the average manager make during a working day? Too many to keep track of, no doubt. Spare a thought then for the employee in a giant food factory with the following complaint: "I make more decisions driving to work than I ever do once I get there."

Home and work, the same employee says, "are two different worlds. At home I am fully involved. There are decisions to make about the children's education and family finances. At work, about nothing."

Creating a Committed Workforce is a new book about 14 British companies which have devoted much effort in recent years to winning the active co-operation of their staff. Their employees are, as a result, apparently more dependent than the one quoted above.

Ironically, several of the companies cited were among those which put their workers through a traumatic time at the beginning of the 1980s, shedding thousands of jobs in a bid to regain profitability.

These workers who were left were often fearful and cowed, but managers used the hiatus to reconstruct a system of industrial relations which, they said, would be based on cooperation for the good of the company rather than perpetual sniping and outright confrontation.

Like Goldsmith and Clutterbuck's *The Winning Streak*, this book trumpets the good news from British industry and commerce. Many of the now familiar names are here, such as Jaguar, Pilkington and Burton. There are a few new-comers, too, to this roll of honour, such as the slimmed-down and profitable British Steel Corporation.

The authors, Peter Martin and John Nicholas, both management consultants, describe how each of the 14 companies went about creating employee commitment. Much of what emerges is familiar by now.

For example, the employees are less concerned about participating in the company's overall strategic decision-making than they are in gaining some control over

their own day-to-day working lives.

But the individual case studies are full of interesting tidbits: none of the companies cited went about creating employee commitment in quite the same way.

TI Raleigh, the bicycle manufacturer, acquired earlier this year by Derby International, needed a way to maintain employee morale when it moved production of its lightweight bikes from its workshop factory to Nottingham. It was decided that "on every bike produced, the workers involved would attach a signed label with their photograph, and a note that the bike was 'handbuilt' by craftsmen. Product pride is reinforced when people write in and compliment the individual worker whose bike they have bought."

The book also does its best to encourage the faint-hearted. All the companies found that although the road to co-operative industrial relations was strewn with obstacles, persistence paid off.

When management at the chemical company Albright and Wilson attempted to explain the organisation's financial position to groups of employees "they fell flat on their faces. The reason was simple. Their message was too complicated. The workers did not understand the financial terms that were being used, and the first meeting ended in incomprehension. Management retreated an armed agent some months later. This time the message was simplified and understood."

The descriptions of the various aspects of employee commitment and the case studies are written in such a way that each can be read individually. For anyone trying to read the book all the way through, this has the disadvantage that the same anecdotes crop up repeatedly.

A book that one is expected to dip into rather than read at one sitting needs a good index. The one-page effort provided here is pretty useless.

Published by and available from the Institute of Personnel Management, £9.95 paperback, plus 70p p and p. To be published shortly in hardback by McGraw-Hill.



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 A final dividend of 12.225p per share will be payable on or after 6th August 1987 to persons presenting coupon No. 48 enclosed with share warrants to bearer. The dividend will carry a tax credit of 3.325p per share.

RE KANSALLS INTERNATIONAL BANK S.A.

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 In accordance with the terms and conditions of the Notes, notice is hereby given that for the six months period from July 23, 1987 to January 23, 1988 the Notes will carry an interest rate of 7 1/4% (inclusive 1/4% margin). The coupon amount so calculated will be £37.458.

Public Notices

RYLON BOROUGH COUNCIL

ST. ANNES OPEN AIR BATHS SITE
 The Council is in receipt of a planning application for the development of the site into a public open space. The Council is seeking comments from the public on the proposed development.

Legal Notice

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IN THE MATTER OF ROSE OF WATFORD
 Nature of Business: MOTOR DEALERSHIP
 Administration Order made: 13 July 1987
 PP ADRIAN R. STANWAY and J. MARTIN (REDALE) Joint Administrators

IN GERMANY THEY CALL IT "SCHICK"

WITH THEIR USUAL DISREGARD FOR ROMANCE, THE AUDI ENGINEERS PREFER: "EINE UMFASSENDE NEUAUSWERTUNG DER AERODYNAMISCHEN WERTE"

THE REAR of the new Audi 90 looked as though it wouldn't be out of place on a race circuit.

"VERY FASHIONABLE, very chic," we ventured.

THE FACES in the room dropped in unison. Audi's aerodynamics expert, Dr Burkhardt Leie, broke the stony silence in the politest possible way.

"IT'S NOT fashion, it's not chic. It's a major reevaluation of aerodynamic values."

TRY TELLING that to the driver turning heads on Munich's Maximilianstrasse, we thought.

DR LEIE continued: "Nothing on the Audi 90 is there for show. The spoiler, for example, increases the down force of air on the rear of the car, giving it greater stability at speed."

"AS AIR flows across the rear section it meets the spoiler. The natural shape of the spoiler causes the air to rise. But what goes up automatically comes down on the other side. This increased down force reduces the incidence of lift and improves stability."

"THERE IS also an effect on the 90's Cd factor of some 2%."

"AH, COEFFICIENT of drag," we said.

"YES. WITH the 90 we wanted to obtain a Cd factor of 0.31. To you the car may look fast, but to us it is merely the result of minimization of air resistance."

"YOU MUST remember, that the Audi 90 is a powerful car. A very powerful car," Dr Leie continued.

"TOP SPEED 128mph on your autobahns," we chimed in.

"EXACTLY THE 2.2 litre version can develop 100kw/136bhp. Such power would be wasted without the correct optimization of the basic body all the way through to blower stream velocity testing. By lowering the resistance, we reduce fuel consumption at speed. In addition, our work enables us to improve the car's flow-noise and handling characteristics."

BLOWER STREAM velocity? Dr Leie's enthusiasm was in danger of reaching gale force. We attempted to slow him down.

"SO, HOW do you optimize the car's shape?"

"QUITE SIMPLE. We develop the basic shape of the body in a wind tunnel with a model scale of 1:4."

"AND THEN?"

"2,500 HOURS, overall. We tested production line vehicles with full engines, closed front panels, road going wheels and grilles in the Wolfsburg wind tunnel. We took measurements at wind speeds of 120, 140 and 160km/h."

NEVER MIND wind speed, Dr Leie was in full flow.

"THEN WE conducted an additional study in Europe's largest wind tunnel located in Holland. We tested for the effect of open side windows on the Cd value and so on."

"MUCH OF a difference?" we asked, bracing ourselves for the inevitable.

"WITH THE front window open, 0.0008% of a km/h."

OUR MINDS started the mental arithmetic. 0.0008% was precious little to sacrifice in a car capable of 200km/h.

AND YOU could see where Dr Leie's handiwork had contributed. The side windows were flush with the body skin. The door handles were flush mounted for an un-

interrupted body shape.

THE FRONT and rear aprons were gleaming one-piece designs. The bonnet sloped gently. And, of course, there was the rounded shape with that spoiler.

WE THANKED Dr Leie and made our way to the exit.

TURNING FOR one last look at the car, we caught sight of the Audi 90's wider wheels.

"IMPRESSIVE WHEELS, mind you, very racy," someone said.

THERE WAS a certain consternation amongst our German hosts. Dr Jorg Bensinger, Audi's chassis and suspension expert, stepped forward wearing an air of indignation.

WHAT, WE wondered, was the German for 'déjà vu'?



"ONCE THE shape is right, there are obviously requirements in terms of styling, comfort and legal regulations that must be incorporated. These, naturally, produce a deterioration in the drag coefficient."

"NATURALLY," WE replied without total conviction.

"OUR TASK was to take these restrictions and devise a way to reach our target of 0.31."

"THE OPTIONS included the aerodynamically-beneficial design of certain exterior components."

"FOR EXAMPLE?"

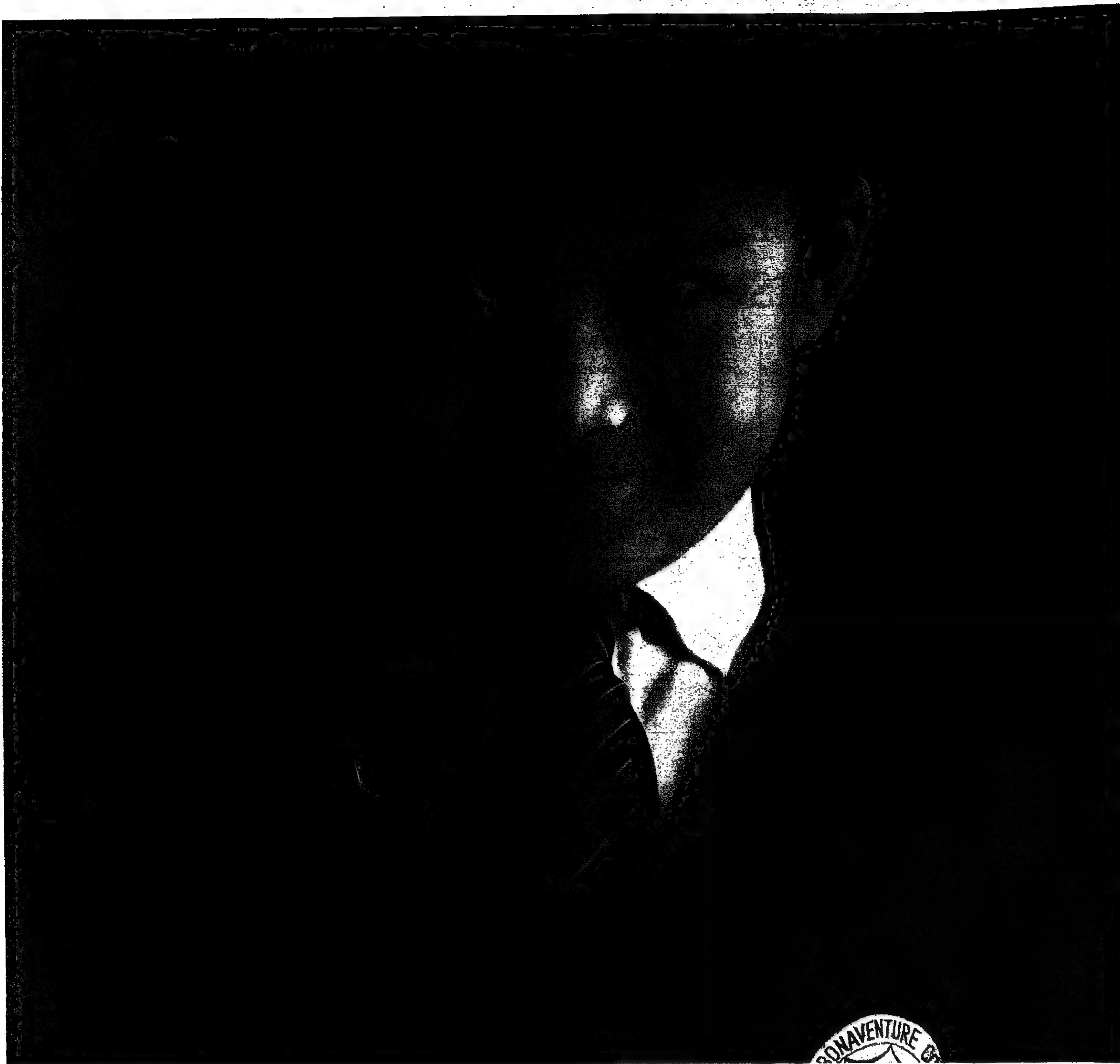
"THE CAREFUL improvement of the external mirrors, cooling air-feed system and soundproof panelling beneath the engine and gearbox."

"HOW LONG did you spend in the wind tunnel?"



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TECHNOLOGY

UK RESEARCH INTO SUPERCONDUCTORS

Oxford focuses on capacity limits

By Jane Rippeteau

IMAGINE a huge box full of ping pong balls. You could fill the box, but it would still have a low density because of all the empty air pockets among the balls.

The image is analogous to one of the chief impediments to commercial use of recently-discovered materials that transmit electricity without resistance and without the expensive cooling systems required by older-technology materials.

The new "superconductors" have spurred great excitement worldwide because their performance at warmer—though still very cold—temperatures means that computers, motors, electro-magnets and other products made from them could be far cheaper to build and operate.

Superconductivity occurs in certain materials when chilling slows atomic activity, allowing electrons to flow through them more easily. Superconductors in use today need a bath of liquid helium to make that happen because they have to be chilled nearly to absolute zero (0 degrees Kelvin, or -273 degrees Celsius).

The new materials reach a superconducting state at around 85 degrees Kelvin, usually attained with liquid nitrogen, costing about 20 pence a litre. Liquid helium costs around 25 a litre.

But the brave new world envisaged from harnessing the new materials may be a long way off. Two main limitations

OXFORD University last Thursday set up formal mechanisms to co-ordinate its research into superconductivity.

With some 50 to 60 people in four to six different university departments now involved, Oxford dons formed a co-ordinating committee of five members, and set aside a day in September for a formal seminar at which researchers would explain their work to each other, according to Jonathan W. Hodby, lecturer in physics at Oxford's Clarendon Laboratory.

The Thursday meeting also constituted a formal decision that Oxford will devote resources to superconductivity research at the expense of other work, says Hodby.

must be overcome: their form, and their inferior performance in terms of the amount—or density—of electrical current they can cope with.

Scientists at Britain's Oxford University are among researchers worldwide tackling these issues. "Nobody knows enough about the materials yet to say if the problems are insurmountable or not," says Brian Derby, a member of the superconductor research team in the Oxford Department of Metallurgy.

A recipe which calls for yttrium, barium, copper and

"Thousands of people worldwide are converging on this poor compound," says Peter Day, committee representative for the inorganic chemistry department, referring to the new alloy found by IBM scientists in Zurich last year. This material superconducts at easily-achieved cold temperatures. "We had to ask, 'Should we get involved at all?'"

Oxford was among British universities invited last Friday by the Science and Engineering Research Council to submit applications for September for selection as Britain's main inter-university centre for superconductivity research. It will be up against top research teams at Cambridge and Birmingham universities, among others.

top magnetic field test facility, at Oxford University's Clarendon Laboratory.

In his hands, he holds a foot-long prototype of a wire, a malleable silver tube tightly packed with superconducting material like coal powder. "There is promise in the new materials," he says. "But it will be years before reliable lengths are on the shelf in quantity."

Some researchers believe the new materials call for new design concepts. One, at Southampton University, thinks a simple ceramic tube shape

fabricated by a tiny advanced materials company in the UK already holds promise for some applications (see accompanying article).

But whether wires, films or tubes, none of these forms will be meaningful for industrial use unless another problem is resolved. The new materials are not dense enough in their ability to transmit current: they carry only about one-hundredth as much electrical current per unit of area as the older-generation superconductors needing the costly cooling systems.

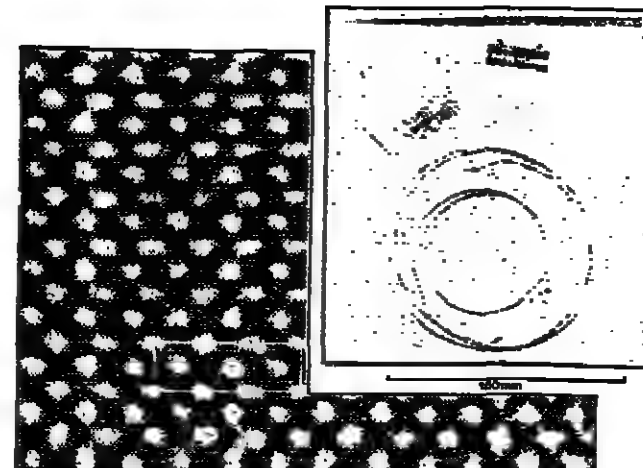
Oxford's metallurgy team is using its world-class electron microscope—so powerful it can see atoms—to study the material's basic structure in the hope of correcting this limitation. At issue are such matters as atom alignment, crystal voids and jagged boundaries. The material is built up of crystals that form as the

crystals slowly cool after its fiery melt-down in the kiln—much as crystals grow as water evaporates from a dish of salty sea water.

The crystals grow up in an awkward formation, with boundaries between them and voids among them, just as there are boundaries and air pockets among ping pong balls in a box.

The boundaries and voids can interrupt electron flow, hence interfering with the material's overall ability to transmit current, according to Edward Boyes and Pratibha Gal on the metallurgy team.

Scientists refer to this ability as current density and measure it as amperes per square centimetre. The new materials weigh in at about 1,000 to 5,000; older-generation superconductors perform at some 100,000 and above. To improve that, "we are trying to lower the percentage of voids,"



Atomic structure of a superconductor made by Oxford researchers, and silver wire packed with the new superconducting material.

explains Boyes. But it is not as simple as that. Something must be done about the boundaries as well.

The crystals, says Brian Derby of the team, "are like bubbles. If you blow on bubbles, the breeze won't go through." The boundaries, Derby notes, may impede electron flow, just as bubble walls block a breeze.

"It's 99.9 per cent certain there is something there," says Derby. "We want to know what it is and how we can remove it without destroying the properties of the bubbles."

Derby and his team are building equipment, to be ready by the end of this summer, which will attempt to measure the density of current flow across crystal boundaries to see just how the current is affected.

In the international race to understand and harness these promising materials, they will not be alone in this work.

Watson says this is not a problem either because magnetic separation does not always require high magnetic fields, and that the density Tavares claims for his products is sufficient.

Tavares, who holds a doctorate in materials science and chemistry from Imperial College, concedes that he has no independent evidence yet to corroborate his claims about his product's performance. He says he has sold the material for fuel cell electrodes and other uses.

His present tubes are 38 mm in diameter. He says that by autumn he will make them up to 150 mm across, and with funding could go up to 2 metres.

Sceptics point out that the current density, or amount of current transmitted per square centimetre of area, is very low in the new superconductors.

clay as an alternative to conventional electro-magnets that consume huge amounts of electrical power. Those installations, he says, use older-technology superconductors that must be cooled in a bath of liquid helium to work. Liquid helium is not only expensive, at about 25 a litre, but inconvenient on a remote site.

The new superconducting materials work at warmer temperatures achieved with a liquid nitrogen, costing around 20p a litre.

According to Watson, there are already two installations in the world using superconducting electro-magnets to purify

Correct mix of expert advice

LOGICA, THE London software and systems house, has developed an expert computer system which will assist in the formulation of products where constituents are mixed to obtain an optimum result.

Logica was able to draw on experience gained on the Product Formulation Expert System (PFES) Alvey project, which it shared with Shell Research and Schering Agrochemicals. PFES investigated the application of knowledge-based techniques to the formulation of lubricating oils and agricultural chemicals.

Such products as cleaning agents, paints, glues and foods can benefit from the system which will optimise the mixing, testing, analysis and mix adjustments until a saleable formulation is derived. Normally this requires the scarce specialist skills of expert people.

A knowledge-based formulation system can add the decision making of the experts, rationalise their working practices, be used as a training aid by less experienced staff and reduce the time spent on routine work.

Credit to post room efficiency

MAIL ROOM efficiency can be improved and life made easier for the staff with a new system from Roneo Alcatel called Credipac.

The franking machines used in company mailrooms have to be periodically re-certified by the Post Office. To date, this has been a matter of filling in cards, removing a meter unit and taking them, together with a cheque, to a suitable Post Office, where the meter is re-set with more cash. It is time consuming and is believed by Roneo Alcatel to be costing British business alone some £2m annually.

Credipac makes use of a microprocessor-based computer which can be re-filled with credit by the Post Office. When plugged in, the module resupplies the company's franking machine with more credit. The module can then be returned to the Post Office for

Teli
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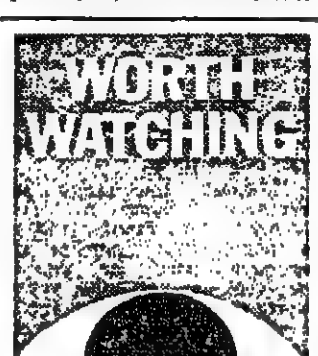
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replenishment by putting it in a priority mailing pouch, together with a cheque and a counterfoil, and sending it to a re-crediting office. Return within three days is guaranteed.

The module will only work with one franking machine. Each time it is plugged in, the security code number it will exchange with the machine next time is changed, making fraudulent use almost impossible.

Card reader with a personal touch

UK COMPANY Datascope of Camberley, Surrey, can offer a credit card reader for £100, to be used in conjunction with an IBM personal computer (PC) model XT or AT.



Edited by Geoffrey Charlish

Versions can also be supplied for Olivetti and Amstrad machines.

This "intercept" reader is connected between the computer enclosure and the keyboard and normally has no effect on either. Normal communication between keyboard and computer is only interrupted when a card is "wiped" through the reader's sensing slot and sends its data into the PC.

CONTACTS:
Logica: London, 837 P111. Datascope: UK, 0278 854095. Roneo Alcatel: UK, 0708 40003.

Conflicting views on the validity of off-the-shelf super-tube

IN A hastily assembled collaboration with a tiny British advanced materials company, a Southampton University scientist is running experiments this week on a ceramic tube made of superconducting material that he believes has potential commercial use.

The product was developed by a little-known UK company called Basic Volume. In a curious twist, company founder Carlton Tavares says he has for four years been producing alloys similar to those recently found to superconduct more efficiently, but that he had used the materials for other purposes and did not realise they were superconductors.

Industry experts are highly sceptical about the utility of

the small-diameter tubes Tavares has fabricated. In general, the new superconducting material is difficult to make into useable shapes because it is brittle and crumbly. Most researchers are trying to come up with wires or thin films.

"Plenty of experts exist" for mixing binding agents into the material to make ceramics, says Harry Jones of Oxford University. But that, he says, can alter the material's superconducting capability—that is, its ability to transmit electrical current without power loss.

Miles Drake, manager for industrial gases technology at Air Products, has provided Basic Volume with free liquid nitrogen to run experiments. "This company has considerable tech-

nical knowledge of these materials and has processing know-how," he says. "But it's not clear whether they've produced anything of genuine worth."

At Birmingham University, where scientists recently made major contributions to understanding the basic physics of the new superconductors, Christopher Muirhead says, "It sounds very impressive, but I would like to know who has seen it, who has measured it."

None of this worries James Watson, lecturer at Southampton University's Institute of Cryogenics and, according to Jones at Oxford, a man of "very high" reputation whom he knows well. Watson is confident

he "could make a device tomorrow" to demonstrate a prototype instrument for separating compounds magnetically.

Such a device, he adds, if it can be built for industrial use, could be useful in the \$100bn annual magnetic separation business. Mining and mineral processing industries, he notes, use magnetic fields to separate pure metals and minerals from bulk matter.

"I'm very excited about this product," says Watson. "I think there are a lot of opportunities for using macroscopic tubes rather than wires."

According to Watson, there are already two installations in the world using superconducting electro-magnets to purify

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THE ARTS

Television/Christopher Dunkley

Too many wimps spoil the gags

Thank goodness for BBC's *Blackadder II*. Without them television's comedy scene would be a uniform characterless desert. Perhaps it is the strong character of the writers, Richard Curtis and Ben Elton—and of the producer, John Lloyd, and of Rowan Atkinson who takes the title role—which has given the series its distinctive flavour.

Perhaps it is the 400-year-old setting in the court of Elizabeth I which has enabled them to step beyond the depressingly restrictive boundaries so dutifully observed by other current comedies. Whatever the reason, this is the only comedy running at present which does not carry with it a powerful whiff of fear: fear of the feminists, fear of the race industry, fear of stepping outside the ever stronger political consensus.

The only other series of which the same could be said is *Spitting Image*, which, significantly, is also produced by John Lloyd. Even *Spitting Image* tends to stay within some of the fear boundaries. For instance I cannot remember them ever doing an item on the remarkable connection between physical unattractiveness and the shrillness with which feminist causes are preached, an ideal *Spitting Image* subject, you might think.

However, the series does regularly lampoon the obnoxious royal family, and the obnoxious Thatcher government, and for that it deserves our gratitude, not for party political reasons but because it is unhealthy for any society to acquire an utterly dominant set of attitudes where such important matters as politics or monarchy are concerned. But *Spitting Image* is not currently on the air, and so it is true that *Blackadder II* is the only exception to the rules of sycophancy and whimsy which now dominate television comedy.

Blackadder II frequently pil-

lories sycophancy. One of the central jokes is the extent to which everybody (except gormless Nursery) kow-tows to the Queen—who, contrary to the fond English classroom image, though interestingly in line with modern scholarship—is portrayed as capricious, cruel and deeply insecure.

Splendidly played by Miranda Richardson, Elizabeth has about as many good jokes as *Blackadder* himself, ranging from the one word "Snap!" as she sits gazing at a chessboard, to her zealous leadership of the nautical craze following Raleigh's return from his long sea voyage: black eye patch and "What home hearties, splice the mainbrace!" banter. Incidentally, this little joke itself had a serious point to make about the tyranny of fashion which, as it happens, is precisely what so many television comedies are currently suffering from.

What is the setting for TV's new sitcom *Watching*? Liverpool, of course. What sort of chap is the male lead? A wimp called Malcolm whose idea of real excitement is ornithology. Who is responsible for initiating all the sexual chemistry? The female lead, of course. And what sort of person is she? Sharp, streetwise, quick, a keen drinker, and the master of the one-liner. Of her friend Pamela she says "She'll laugh till her shoes are full."

Asked by Malcolm "Can I sit down?" she says "Damn 'ave yer tried?"

The set is in around about the time of George and Mildred which, now 10 years old, is being re-run by ITV. Here the home-loving, sexually shy, nervous and ineffectual archetype is played by George, and the bossy, ambitious, sexually voracious (never-set-enough-of-it) archetype by Mildred.

Similar weak man/tough woman relationships are now on view in *Valentine Park*, where he is a fey gardener and she is the level-headed one who

even has to initiate the good-night kiss. The same goes for *Farrington*, which has, at least, stepped outside the hackneyed settings to plump for South America. But what sex is the tough, thrusting, efficient, independent consul-general? Female, of course. And the weak, vain, nervous, soppy head of security? Male of course.

Last week in BBC's *No Place Like Home* timid Trevor was trapped in his hotel room by a lecherous woman, caught by Vera, his wife, while lying underneath the woman, and then abandoned by Vera. His response was to shout ineffectually "Vera, come back here! You can't drive off in my car!" To which Vera replied "Why not?" eliciting the punchline "Well, I shall miss it."

The extent to which the stupidity, vanity, weakness, and ineffectuality of men is becoming the central — indeed, only — element in British television comedy is now worthy of a book. Those who say that this phenomenon is merely a righting of the balance, because previously it was always women who were shown in that light, should be asked to produce their evidence. Certainly music hall comedians used to tell jokes about mothers in law and naive young ladies, but they also told jokes about male drunks, weak men, and stupid labourers. The notion that women used to be the butt of all jokes is a myth, part of the great feminist lie which seeks to take the injustices obviously done to some women in some classes within some societies during some parts of history and extend them to all women everywhere at all times, while pretending that no concomitant injustices have ever been done to men.

A few weeks ago I was asked by Dennis Main (writing in *BBC World Service*) programme on the subject of broadcast comedy, to speculate

on the state of the art come the year 2000. Since *DMW* is the man who produced such odds and ends as *The Good Show*, *Hancock's Half Hour* and *Till Death Us Do Part* his own guess would be a lot more valuable than mine, but with hardly a thought I found myself answering in tones so pessimistic that, afterwards, it even surprised me.

I suggested that by that date, or thereabouts, a large part of the comedy we have known in this country for centuries might not be permitted at all. In place of the robust attitudes which gave us everything from the cartoons of Gillray and Cruikshank through to the television comedy of *TW3* and *Monty Python*, we seem to be moving towards a society in which over-sensitivity to the supposed rights of special interest groups leads to the disappearance of large areas of comedy altogether.

Generations of Jewish immigrants dealt with anti-Jewish jokes by telling all the best anti-Jewish jokes themselves. It was part of the assimilation process and made for a stronger society. But today there is a deep nervousness over telling jokes about the latest immigrants, not because of the blackness of their skin but because of its supposed thinness. Earlier this year newspaper reports stated that Johnny Spectator had been told by the BBC to cut all references to racism and sexism in his new series of *In Sickness And In Health* (the sequel to *Till Death Us Do Part*, still featuring Al Gornet) which is a bit like telling Stevenson to remove all mention of pirates from *Treasure Island*.

Given the willingness of our political masters to interfere in broadcasting, despite their much proclaimed belief in freedom of choice and freedom of the individual, it is already impossible to imagine television providing political comedy any-



Miranda Richardson and Rowan Atkinson in "Blackadder II"

where near as effective as that of — say — Thomas Rawlinson at the turn of the 19th century. And given the willingness of the broadcasters to connive at the mollycoddling of "special" groups whether defined by gender, colour, nationality, sexual inclination or even size — "No more jokes about dwarfs" — it is only too easy to imagine the anodyne rubbish we may be reduced to by the year 2000.

We are well on our way down the path, and one of the clearest indications is the increasingly

frequent appearance of clip shows such as BBC's *What's A Carry On* and ITV's *Just For Laughs*. Both plunder British comedy films from the 1950s and 1960s to exploit material not dare to produce today. In other words the broadcasters have already reached the point where even "Carry On" style comedy can be presented only with the excuse that it is historical.

Perhaps somebody should put a preservation order on John Lloyd.

Gluck/Guildhall Old Library

David Murray

It is hard to believe that a Gluck opera, even a little one, should have had to wait until Monday for its first performance; but so it was, according to the conductor George Badacsonyi. *La Corona* is neither a trivial work nor a juvenile one: in 1765 Gluck had more than 30 years behind him, including *Orfeo*. His new "alone theatre" was commissioned by the Empress Maria Theresa, with a libretto by Metastasio, to celebrate the Emperor's nameday. Unfortunately the Emperor died before the intended premiere, which was therefore postponed indefinitely. Nobody could have guessed that it would eventually amount to 222 years.

Gluck had already produced a "serenata teatrale," *Il Parnaso confuso*, for a highly successful family performance by relatives of Archduke Leopold (who had conducted it himself). It starred four archduchesses, and *La Corona* was designed for the same ladies. Evidently the ladies were rich, for Gluck's music makes great demands upon his sopranos. The new simplicity of *Orfeo* was set aside for the occasion: *La Corona* is a mini-opera, with a half-dozen substantial *da capo* arias plus a duet and closing ensemble. The mythical action is slight (but we missed any detailed account of it in the programme notes all the same). The principal roles are Atalanta and Melaeus, with a pair of arias each as well as their duet-in-

which Melaeus's part, surprisingly, is the higher one. In this City of London Festival performance, Patricia Rozario sang Atalanta with appealing grace, and Penelope Walmesley-Clark, a devoted student of Gluck, sang Melaeus with more enthusiasm than skill. There was enthusiastic support from Elisabeth Friday and Eirian James, each taking her single aria with polished confidence. One of the chief distinctions of the score is Gluck's varied and imaginative orchestration — evidently he was anxious to enrich his simple frame — and the programme well in it from first (a bright overture with lively horns to suggest the coming hour) to last.

Since *La Corona* plays for about an hour and a quarter, there had been room to begin the concert with Gluck's *Don Juan* ballet, four years older than the opera. There, too, Gluck captured nice distinctions of gait and colour in the long chain of dances; there too, however, a list of the numbers — and their relation to the plot — was missed in the programme. Only a little of the music is dramatically specific, most of it consisting of courtly minuets and gavottes. It was a trifle frustrating not to have just what the guest had arrived (quite early, in this version of the story), though the sternly imposing chaconne which ends the ballet left no doubt about Juan's fate.

BBC Symphony Orchestra

Andrew Clements

With its subtitle of "A Masque for Dancing," Vaughan Williams' *Job* was an inevitable choice for this year's Fromm at the Albert Hall. It is regarded in all the right quarters as Vaughan Williams' masterpiece, and the most perfect alliance of his dramatic and symphonic skills. The score emerged with total clarity, and the orchestra failed to appreciate its virtues — the Blakean scenario can hardly have helped its cause there — and the composer instead retransmitted it for the concert hall, so that its overall conception now seems more thematic than balletic.

Despite its hybrid origins, it remains full of marvellous things, a source book for the later Williams symphonies and a peculiarly effective evocation of the world of William Blake. The music of the earlier sections seems the stronger now; the later writing is more sparsely scored, and the use of the solo saxophone to represent Job's suffering seemed merely awkward. But its finest music came at the end, with a rapt serenity that is profound and deeply expressive.

John Pritchard is the rapt unfolders par excellence, at his most convincing when able to nurse the music along at its own natural pace. Here the vividness of some of the scoring in the later episodes did not tell as it might. Pritchard's command of the overall shape was so satisfying, however, and the playing of the BBC Symphony Orchestra so responsive, the score emerged with total clarity, and the orchestra failed to appreciate its virtues — the Blakean scenario can hardly have helped its cause there — and the composer instead retransmitted it for the concert hall, so that its overall conception now seems more thematic than balletic.

Monday's concert was balanced with another one-act ballet, Falla's *El amor brujo*. There were no problems of colour here; Sarah Walker's throaty assumption of the mezzo-soprano part provided all the pungency needed, though again the BBC SO, and its trumpets in particular, was alert and assertive.

Between the two Ida Haendel concerts, the 50th anniversary of her first appearance at a Prom by playing Britten's violin concerto. It is one of her long-time specialities, but it did not succeed here quite as brilliantly as before; the febrile intensity of the central scherzo lacked imaginative force, and the finale could not summon up all its poetry.

Attractions/Soho Poly

Martin Hoyle

The best thing about Tony Marchant's first stage play for three years is designer Michael Taylor's transformation of the claustrophobic basement theatre in Riding House Street into a convincingly seedy black museum. Seating banks two of the four walls, but Smith's hide-killing bath, Mrs Crisp's hair chair, Peacock's gun and sundry other intimations of mortality fill the dark space. The sudden incursion of violence when a brick-chucking sex-treat snatches a glass case and ends the first half makes a shocking impact.

Very little else does. The story of old Mr Lawson's run-down seaside collection of homelife, a sour-faced Ruth who sells the tickets, and wandering Danny, a DESS resort-hopper who tries to transform the museum and attract Ruth, all to the background of a relentless murder and public indignation, plods into artificially whipped-up melodrama before toppling into the ludicrous.

The author has recently been writing for television, and his dialogue is that improbably articulate domestic found in the better soap operas. Sadly this trivialises themes of real interest. Lawson's simple concept of good and bad, evil being totally apart, an exhibit in a glass case, contrasts with young

Danny's acceptance of modern life as a "thingie" outside there's a great big snuff movie going on. Danny lives, while Lawson is at best a voyeur, even spying on the young couple as they make love on the beach.

The development of the characters is earnest, after the manner of a Radio 4 afternoon play, and ultimately the characters, for all their plastic plausibility, are no more convincing as human beings than the carefully composed photographs of suffering in Sunday supplements are as depictions of real humanity.

The usually reliable Ivor Roberts seems not merely geographically lost at sea as Lawson, uncertain whether to play him as an ageing reactionary, a good-hearted old simpleton, a liberal psychologist or a dirty old man. Ross Boatman's Danny is too likable, intelligent and vibrant for a bad and breakfast drifter who carries up snooker rivals. Saskia Reeves gets away with comparing a night seascape to black velvet with white frills where the waves fold and break on the stage. I'd like to float out weightless with the tide, in tones reminiscent of Ethel Grumman. Brian Storer directs fluently and strongly, but never quite manages to make us believe there's a real world out there.

Saleroom/Annalena McAfee

A collection of medals conferred on Sir Dighton Probyn, hero of the Indian Mutiny, was bought for £28,800 by the London dealer Dix at Christie's sale yesterday of orders, decorations and campaign medals. The same dealer paid £17,800 for a collection of medals bestowed on Admiral Lord Charles Berkeley, 1846-1919, once described as "the best known sailor of his day."

A medal of more recent vintage, the George Medal awarded to Able Seaman J. E. Dillon for action in the Falkland Islands campaign, was bought for £2,200 by Mr William Graham, a private collector from Bournemouth. Christie's sale and Mr Graham donated an extra £500 to Mr Dillon, who was selling his medals for financial reasons. The sale made £163,955 with only 3 per cent unsold.

The Japanese department store Seibu successfully bid for the top lot in Sotheby's sale yesterday of Works of Art and Equipment relating to golf, cricket and other games. The store paid £8,500 for William G. Mackenzie's portrait "Old Tom Morris," dated 1904. A long-nosed driver golf club, circa 1840, was bought for £3,410 by the New York dealers Alexandra Gallery. The gallery paid the same price for another club, a rare and early track iron. The sale realised £80,595 with 12.7 per cent unsold.

Sammy Cahn/Duke of York's

Antony Thornecroft

Suddenly London is awash with sophisticated entertainment. On Monday Steve Ross started a season at the Ritz while Sammy Cahn was at the Duke of York's with his reminiscences of Hollywood through the ages. Mr Cahn may not be the greatest lyric writer of all

time but he is certainly the bravest. He will do an impersonation of Mario Lanza at the first hint of a clap and turn the history of the Hollywood musical into his life story.

But he has much to be proud of. Let him remind you of his songs in this engaging show.



Sammy Cahn

On an earlier visit to London he totally hogged the stage. This time round he has three young singers to give him some rest, but they have to battle for their spots: Mr Cahn still commands most attention.

The stories pour out of him. "And then the phone rang," he begins and is off with a humorous reverie on how he wrote "Teach Me Tonight" or "Thoroughly Modern Millie." He worked with all the best composers, notably Johnny van Heusen, and for all the big stars, notably Frank Sinatra, whom he almost claims as his creation. If there is a curiously mechanical feel to some of his lyrics, especially in songs like "Love and Marriage" and "All the Way," there are also some humdingers, especially "I Should Care" and "Saturday Night Is the Loneliest Night of the Week."

Mr Cahn is as he looks — the Jewish boy from Brooklyn with the chutzpah to take on the mighty. He likes to reduce his success to the cash box but he has a style which makes him a very beguiling host. Anyone with but a fleeting interest in the idiosyncrasies of Hollywood moguls or with the writing of popular songs should take advantage of Mr Cahn's brief visit. With Peter Daniels as a straight feed at the piano and the support of Leola Jiles, Anne Telford and Vincent Pizzillo, Mr Cahn provides an undemanding, escapist interlude in good natured egomania.

Summer pleasures in Tuscany

In recent years there has been a remarkable proliferation of festivals throughout Italy, especially in Tuscany, where every medium-sized city (and a number of smaller towns) devise some kind of programme of entertainment for the summer. It is not hard usually for the municipal authorities to find a picturesque castle, a handsome square or a refurbished theatre to serve as a festival site, and it seems almost as easy to persuade a half-dozen star performers to lend lustre to the proceedings.

In Montalcino, for example, there is a renewed and inventive *Tosca* of 1877, a series of theatrical presentations of exceptional interest. In the spacious, impressive fortress that dominates the charming hill town (other than the famous hill town, including the superb — and not cheap — Brunello, last week a young company, the "Minotaur," staged the world premiere of a one-act play by Marguerite Yourcenar, *Le Dialogue dans le marécage*, written in 1925 when the author was in her early twenties. Sensitively translated into Italian by Luca Cappelletti, the young director who also conceived the taut, effective staging, the 50-minute text hinges

on a Tuscan subject, the segregation of Pia de' Tolomei by her jealous husband (in Dante, Pia tells that "Stena made me; Maremma unmade me"). Mostly the dialogue is a reflection, debate on jealousy, remorse, love. Devoted to this elusive,

A picturesque castle, a handsome square or a refurbished theatre makes a perfect setting for a local festival, at which star performers sometimes lend their lustre to the proceedings.

evocative play, Coppola kept his small cast under welcome control, but understated performance in which Patricia Zappa Mulas, as Pia, and Piero Di Lorio, as her husband, were excellent, and the young Paolo Bernardi was an affecting young monk. The bare walls and towering turrets of the fortress offered an ideal setting, and Coppola lighted them beautifully.

In the less well known Casentino area of Tuscany, in the hills between Arezzo and Florence, the little town of Stia also sponsors a summer of music. Actually, Stia's Studio Lirico is a school, a region of master classes for aspiring opera singers. The students and their instructors — then form the core of the town's Festa musicale. Among the concerts and recitals this year there was a singing of *Amor solo*, a rarely-heard comic work by the 14th century Italian composer Antonio Sacchini.

Obviously, you do not go to a student performance with the same expectation of a big professional theatre; but within its limitations (some of them, obviously, budgetary), the Studio Lirico offered an enjoyable experience. Played enthusiastically by a student orchestra from Leghorn, under Lorenzo Parigi, the Sacchini score indicated its charm and sparkle; and the producer Talmage Fandorrey kept his committed young cast moving in a light-hearted, rather busy staging. Among the singers, LeRoy Vallmueva, a baritone, Elisabeth Wingfield, the soprano, was lyrical and musical, and the clear tenor Richard Greenalade, while he had some pitch trouble, had really admirable Italian enunciation.

Tuscany's somewhat more familiar festivals — Barga, Montepulciano, Batignano — also continue in good working order; I hope to report on some of them within the next few weeks.

William Weaver

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

July 17-23

Theatre

NEW YORK

Fences (48th Street): August Wilson hit a home-run, this year's Pulitzer Prize, with James Earl Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve lot but dogged by his own failings. (221-1211).

All My Sons (John Golden): Richard Kiley has the gratifying part of Joe Keller in Arthur Miller's post-war moral tale of profits versus principle in a nicely dated production from the Long Wharf Theatre. (238 6200).

Cats (Winter Garden): Still a seller. Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically taut, but classic only in the sense of a rather staid and overblown idea of theatricality. (238 6282).

42nd Street (Majestic): An immodest celebration of the heyday of Broad-

way in the '30s incorporates gems from the original film like *Shuffle Off to Buffalo* with its appropriately trash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (238 6200).

La Cage aux Folles (Palace): With some tawdry Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): The Tony's best play of 1986 won on the strength of its word-of-mouth popularity for the two clatters on Central Park benches who bicker unapologetically about life past, present and

future, with a funny plot to match. (239 6200).

Big River (O'Neill): Roger Miller's musical is this sedate version of Huck Finn's adventures down the Mississippi, which walked off with many 1965 Tony awards almost by default. (248 0220).

Les Misérables (Broadway): Led by Colin Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway issues in pageantry and drama, if not strict adherence to its original source. (238 6200).

Starlight Express (Gershwin): Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up silly plot. (586 6510).

We and My Girl (Marquis): Even if the plot turns on ironic mimicry of Pygmalion, this is so classic, with forgettable songs and dated leadenness in a stage full of characters; but it has proved to be a durable Broadway hit with its marvelous lead role for an agile, engaging and deft actor, preferably British. (947 0033).

WASHINGTON

The Immigrant: A Hamilton County Albany (Arts): An immigrant in Texas at the turn of the century conveys the warmth and kindness of autobiography in Mark Harrell's play based on his grandfather's experiences. Ends Aug 16. (488 3300).

CHICAGO

Sunday in the Park with George (Goodman): Stephen Sondheim and James Lapine's Pulitzer Prize winning musical based on posthumous sketches of the life of artist J.M.W. Turner stars John Herrera as the

artist and Paula Scrofano as his lover. End, directed by Michael Maggio. Ends Aug 16 (443 3600).

London

Anthony and Cleopatra (Olivier): Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life, with Judi Dench and Anthony Hopkins as battle-scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. Best of the rest at the NT is Michael Gambon giving his finest-ever performance as Arthur Miller's doomed longshoreman in *A View from the Bridge*; Juliet Stevenson in a fine revival of Lorca's *Yerma*; and David Hare's production of *King Lear*, Hopkins, a massive garbled oak, which gathers force and more friends as it continues in the repertoire (RSC 2226).

Macbeth (Bartholomew): Jonathan Pryce is a wraith, blood-curdling Macbeth in Adrian Noble's exciting production for the RSC. It plays in repertoire with Jeremy Irons' incoherently wretched Richard II and a rough and tumble modern-dress Romeo and Juliet. Best in the RSC's Barbican Pit is Janet McTeer leading a fine ensemble in *Worlds Apart* by Cuban playwright Jose Triana. The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb central performance by Michael Craw-

ford. A new, meritorious and palatable hit. (839 2244, CC 579 6131/249 7200).

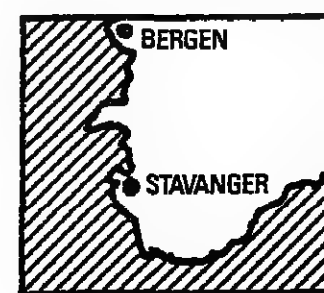
Starlight Express (Apollo Victoria): Andrew Lloyd Webber's roller-skating folly has 10 minutes of Spielberg movie magic, an exciting first-half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods to rock, country and hot gospel. No child is known to have asked for his money back. (834 8184).

Starlight Express (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8188).

TOKYO

Les Misérables. After London and New York, now Tokyo and the Japanese version of the Tony-award winning musical. The cast was hand-picked by the creative team of producer Cameron Mackintosh (from an astounding 11,500 hopefuls), then trained for nine months in a special "school" and rehearsed by director John Caird. Costumes, set, sound, lighting have been supervised by the respective original designers.

Flora in from London. Toho's Les Misérables is a triumph. The best production of a Western musical in Japan, it differs little from the original London version. Convincing and moving, this top-quality production shows what can be achieved with proper casting and training. Sponsored by the cosmetics company, Shiseido. Imperial Theatre, near Ginza. (261 7777).



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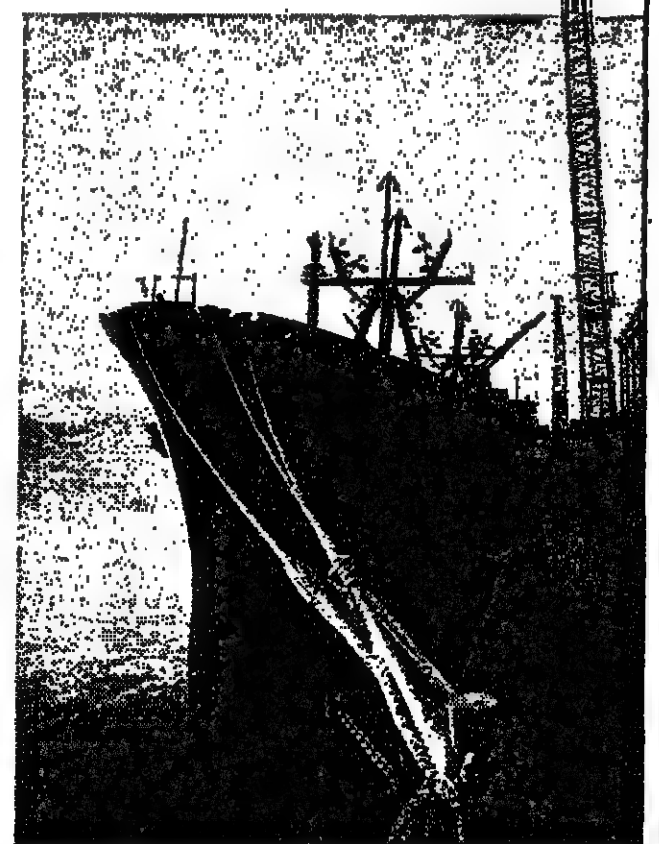
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UN pressure on Iraq

THE RESOLUTION passed on Monday night by the UN Security Council will probably be seen as opening a new chapter in the history of that organisation.

Not that a resolution calling for a ceasefire is in itself a novelty. But in earlier conflicts, for instance the Arab-Israeli wars of 1967 and 1973, when the Security Council passed such a resolution it did so because the great powers knew that their respective clients either actively wanted a ceasefire, or were in no position to refuse one; whereas in the case of previous resolutions on the Iran-Iraq war they knew that the call for a ceasefire would be ignored, but had no serious intention of doing anything about it.

In the present case, however, the Council not only implicitly anticipates non-compliance but explicitly undertakes "to meet again as necessary to consider further steps to ensure compliance." In other words, it acknowledges its own responsibility to do something about such a flagrant and persistent breach of international order as a war between two UN member-states which has now lasted nearly seven years, causing a million or more deaths and incalculable human and economic damage.

Mandatory embargo

What can it do? On paper, as set out in Chapter VII of the UN Charter, its powers of "enforcement" are virtually unlimited, extending even to military action by armed forces levied from the member states.

No one is thinking in those terms at the moment, however. In the present case the "further step" which the Council would most probably consider in the first instance would be a mandatory embargo on arms supplies to whichever of the parties refuses to comply.

Since Iraq has already rejected the resolution it might seem logical to proceed to an embargo against Iraq without further delay, and the Western powers would be happy enough to do this. But neither the Russians nor the Chinese are in such a hurry. They point out that the resolution "requests" the Secretary-General to make the necessary arrangements in consultation with the parties

and to submit a report thereon to the Security Council. They argue that he should be given plenty of time to do this — although since that request apparently refers to another request to despatch UN observers "to verify, confirm and supervise the ceasefire and withdrawal" one could equally well argue that it is rendered inoperative by Iraq's flat refusal either to cease fire or to withdraw.

Urging restraints

As each permanent member has a veto, the Council can only proceed at the pace of the slowest; and, if only for that reason, it seems short-sighted of the Americans to have so hastily rejected Mr Gorbachev's offer of bilateral.

This will be a trying period for Iraq, which is more than anxious to co-operate with the Council in bringing the war to an end, and can be expected to argue that effective pressures should be put on Iraq to do likewise as soon as possible.

But Iraq's friends and supporters will have to urge her to show patience and restraint, to use force only in self-defence so as to give the Secretary-General the optimum conditions in which to try and bring the Iraqis round.

Specifically, Iraq must be dissuaded from seeking to continue the war against neutral and Iranian shipping in the Gulf. In this area Iraq has consistently advocated a ceasefire, as recently as the speaker of Iraq's parliament, Hojatoleslam Hashemi-Rafsanjani, said quite explicitly that Iran would not attack any ship, with or without a US flag, if Iraq stops misbehaving and does not attack our ships.

Of course Iraq will ask why Iran should be allowed the luxury of continuing the war while it likes (on land) and not where it does not like (on water). But Iraq is not well placed to make conditions. She has done well to engage the sympathy of all the great powers, and indeed of the UN as a whole, especially given that she started the war in the first place. If by persisting in naval attacks she now provokes Iran to retaliate against her, she will be in a very awkward position. She should not expect that sympathy to continue.

Over-heated imaginations

THE SHARP reaction in the London market to the latest figures for private sector borrowing suggests rather more about the state of the mind than that of the economy. The steady rise in financial assets up to the end of last week had taken prices into vulnerable territory, and almost any signal might have provoked a profit-taking. There may well be further nerves on any weakness in the trade figures due to be published later today, though these will be still less informative about underlying trends. Ministers may nevertheless find this is a slightly nerve-racking climate for their first major economic Cabinet, a preliminary bout in the public spending battle, tomorrow.

There is something less in the borrowing and consumer spending figures than meets the eye, although both have exceeded preliminary market estimates. Private sector borrowing has been indicated not only by a small surplus of the public sector (a simple cash transfer by way of privatisation), but by a growing banking share of the mortgage market, and rising demand from the financial intermediaries.

Prudential worries

In other words, the borrowing which has scared the market is partly generated within the market. There are good reasons for prudential worries about house price inflation (as the Royal Institute of Chartered Surveyors pointed out quite sharply this week), about the chaotic state of settlements in the stock market, and about the fact that securities houses are now beginning to borrow money to speculate on their own account.

For these reasons, a shake-out in the market is the whole welcome. It should cool the enthusiasm of the over-bullish among the market professionals, and may slightly dampen consumer credit demand. This may have been encouraged by what economists call the wealth effect, especially since this has been officially endorsed by the Chancellor, who argued that consumer borrowing was only rising in the wake of personal wealth. There are reasons for being calm about credit growth, but the over-heated state of the asset market is not one of them. The strongest is simply that consumer spending is not

actually being inflated by borrowing. Even the much-remarked figures for last month show a year-on-year growth about the state of the mind rather than that of the economy.

The growth of credit reflects not reckless spending but a combination of imbalances within the private sector broadly, those with young families borrow, while those nearer to retirement save) and the use of borrowing to finance portfolio positions. As with the professionals, this borrowing may be discouraged by the market's own reaction to the figures.

In the background, however, this over-heated reaction reflects deeper-lying concerns. The British always seem to be suspicious of any figures which suggest that the economy is performing well, and it may well be true that the current growth rate is unsustainable. This is particularly so following a sluggish year, and some past cyclical recoveries have been a good deal faster; but there is every reason to apply normal caution to projections for 1988.

There have also been worries about capacity constraints on output, which have virtually no evidence to support them outside one or two continuous process industries; and more justified concerns about the rise in incomes which is making home demand so buoyant.

Shift workers

At a time when some industries are beginning to turn to shift working to get more out of their existing plant, they may be more than usually willing to concede demands for productivity-related pay increases. Meanwhile the rise in house prices has already provoked some large claims for regional weightings.

All this suggests that the Treasury will be more than usually determined to resist public spending demands: 1988 may well be a year when the rise in revenue should be put to use in reducing the borrowing requirement below its planned value, even though the Chancellor has said that as an average, this is perfectly acceptable. The Cabinet should also be suspicious of any tax or rating reform proposals which are thought likely to inflate housing demand still further. But there is no justification, at this stage, for catching any feeling of panic from the markets.

WHEN NORMAN WILLIS took over as general secretary of the Trades Union Congress three years ago, he put a plaintive question to his staff: isn't there anything on which the TUC doesn't have a policy? Not only did he get the answer no — he got a strong sense that the TUC could not really understand why he was asking the question.

Today the TUC general council meets for its first formal consideration of radical proposals put forward last week by Mr Willis for a new direction for the TUC and its 87 affiliated unions. These emphasise membership recruitment and trade union organisation and suggest a move away from policy to practice.

The TUC excels at policy formulation. It is less good at putting that policy into action. Classically, the TUC's raison d'être has been straightforward: gathering up the hugely disparate strands of thought, interest and activity of its affiliates into a cohesive whole, before presenting that synthesis back to the unions, and then to the Labour Party and the government of the day.

Over the last eight years, that role has become increasingly unrealistic. The unions, hard-pressed by the twin demands of declining membership and more aggressive employers, have become less able to be interested in a common approach. The Conservative government is at best supremely indifferent to the unions' cause and has cut their role in Whitehall—the recent downgrading of the union-industry meetings with Government in the forum of the National Economic Development Council is only the most recent and public example of the process.

Even some leaders of the Labour Party, long-grown child of the unions, want a quieter relationship.

Individually, many of the TUC's constituent unions have been making the changes they feel are necessary to cope with the dramatic changes in circumstances in which they are operating: not just the radically different political climate, but a revamped labour market and accelerating technological advances.

On the unions' political right, for instance, the EEFPU electricians are still stirring controversy with their response to change—their strikes, "single union deals," often with foreign employers, mainly on new, greenfield sites. On the left, the GMB transport workers are trying to force a different form of unionism to organise temporary and part-time workers long ignored by the unions. And in the centre, the GMB generalists are attempting to draw elements from both these approaches — and others on women, on services industries, on non-union areas — into a coherent whole and provide a model for trade unionism for the rest of the century.

But in all this, where has the unions' national centre, the

Membership of TUC affiliated unions



Norman Willis

TUC, been? Taken at face value, its new high-profile and audacious stream of policy papers suggests that it is still a vital, cutting force with something to say. Its harsher critics—among those who bother to consider it at all—would charge that it is lost, floundering, run by a man whom, according to *The Guardian* last week, is "widely dismissed as an amiable buffoon."

Inevitably, there is truth in both these views. Much of the TUC's internal work is of considerable quality, but it is little noticed even within many of the unions, where TUC affairs are regarded as the personal fiefdom of the general secretary. Few union officers — let alone the members — ever see most of the TUC's material. The TUC has made a creditable attempt to remedy this by publishing its own Bulletin for union officials and activists.

And yet, there is another side to the argument. If the TUC were as valueless as some of its critics suggest, it is hard to see how it could even have produced an initiative of such widely-acknowledged quality, interest and significance as that being debated at the General Council today or the series of speeches by Mr Willis which have led up to the meeting.

Though he is jocular, Mr Willis has many strengths too; most notably, a real ability to get on with people. Though it is an asset not much appreciated, it has been vital in helping him fight some of the TUC's battles since he took office.

There is also a team around

him. While Mr Ken Graham, who retired last week as his deputy, will be widely missed, his successor, Mr John Monks, is someone of clear ability who has been closely involved in helping shape Mr Willis's initiative. Mr Roy Jackson, who could have had the deputy's job had he wanted it, is striving manfully to computerise the TUC's headquarters and operating methods. Mr David Lee and Mr Bill Callaghan are acute economists, and Mr Brendan Barber, currently information head, is more than equal to his task of stepping into Mr Monks's shoes as head of organisation.

In spite of these individual talents, however, the charge that the TUC has a lack of direction has some foundation. As the years of Conservative government have progressed, the TUC's position as a surrogate arm of a Labour government in waiting has looked increasingly absurd; pumping out documents on macro-economic policy to watch them

disappear into the ether. The Labour Party has also seemed less and less keen to be tied to the output of the TUC-Labour Party Liaison Committee, the key political-union corporatist state body of the 1970s.

For the TUC, that hurts—but it can probably survive the hurt over the next four years as it has done over the last eight. What has become more significant is the swelling mound of dissatisfaction which is not survivable among its own union affiliates.

Earlier this year, leaders of one of the TUC's largest unions launched an unprecedented critique of the TUC's finances, charging it with unsound management and spending well beyond the tightened financial circumstances of most of its member unions.

The TUC was able to circumvent much of this criticism, partly because it had already started its own financial review aimed at cutting costs and partly because it was able to

challenge successfully some of the accounting standards on which the Ucat construction union report was based. Even so, the gloves came off at that point and member unions started to look hard at what the TUC was doing with its £5.4m income from the unions.

The context of their thinking was crucial. Parts of the TUC may have been locked into 1970s ways of working, but now union leaders on its General Council predominantly are not. Of the 48 current members of the council, 40 have never served on it under anything other than a Thatcher government.

Its products have been sharpened. Some TUC leaders are now all too openly critical of the way the TUC conducts its business, especially the way it has to meet the paper-voracious policy demands of the 31 committees (excluding the general council), most of which meet monthly.

Some are open. Mr John Edmonds, general secretary of the GMB general union, which is putting a resolution to the TUC's September Congress calling for the TUC to move away from the preparation and presentation of detailed economic submissions, says: "The Government will not listen to us, and so we should not waste our time hanging on a closed door."

It is no longer worthwhile for the TUC to produce massive volumes of economic argument, which are only ignored and dumped into the Whitehall shredding machine.

Such points are not new. TUC leaders know full well the impact that its current work is having on its general standing. This is having an effect internally, too. Morale among staff is said to be low. A few weeks ago, some took short-lived industrial action over staffing levels. Pay, even after a recent 3.8 per cent increase, is not high: at a starting salary of a little over £12,000, the rate for (usually graduate) TUC policy assistants is well below that of comparable jobs in the City.

Discontented staff might well be rejuvenated if today's proposals are put into action. What Mr Willis is trying to do is carve out a new role for the TUC by proposing it plays a central role in the key area of union recruitment, making organising areas "to give individual unions a clear run at unionising non-union companies, setting up a special TUC organising fund to help them do it, and expanding union membership from the point of considering a special unions' credit card."

What is already clear is that Mr Willis will not have a clear run at change. His proposals attempt to come to terms with the increasingly difficult internal union problem of single-union deals. The TUC's proposed approach—offering the carrot of designated areas, and money from the special fund providing any planned agreements by unions are not "sweetheart" deals—is now clouded by a more robust line from the TGWU.

The transport workers want a year-long review to make proposals for banning the EEFPU's strike-free deals. For its part, the EEFPU is putting forward surprisingly woolly and long-term ideas for one global union. In a separate motion, the GMB is carrying the torch of Mr Willis' plan to Congress.

What is significant about this is that the TUC and its unions are moving from policy to practice — responding to the challenge of change. On the face of it, the proposals from the TUC and the GMB look the most far-reaching, because they centre on the most pressing of the unions' problems: the sheer extent of non-unionism in the UK today.

Even as recently as the Trades Union Congress last September, the TUC—though it put on its best face in the hope of advancing a Labour government which never came—had little to say to the non-union majority, because it had barely recognised it.

Now it has. Whether its proposals will win round its constituent unions, many of which have real difficulties with some of the moves the TUC is advocating, is open to question. Whether, even if it does, it will be enough for those who really matter—the employees and employers in industry and services—as a much harder question.

Harrison down under

Is Garnet Harrison turning the tables on the Antipodeans? The 35-year-old managing director of Tyndall denies any aspiration to emulate the Ron Brinkleys and Robert Holmes à Courts of this world in reverse—but the £214m agreed takeover of Clayton Roberts, the Australian financial services group, will surely set them thinking down under.

Brought up in Manchester and educated at a local grammar school, he started his working life with Charteris Seal, the Manchester stockbrokers. He achieved early distinction by becoming the youngest ever member of the Stock Exchange at the age of 21 and three months.

In 1979, at the still tender age of 27, he was elected to the board of Clayton Roberts, a candidate for Harold Wilson's Hutton constituency in Liverpool. He polled 20,000 votes and reduced the former premier's majority by 15,000 to just 5,000.

He put politics aside when he went to Australia in 1982.



"Don't hang about—sell the Industrials and buy copies of *Spy Catcher*."

Men and Matters

From a standing start, he built Jp Keywest to the point where it had funds of \$500m under management when, four years later, it merged with Kaitaki to form Clayton Roberts. The lure of what he describes as "the Thatcher revolution" proved too much and last November, he came back to the UK to run Tyndall. Despite the fact that the meeting had ended yesterday, just coincidence, I suppose, that item three on the agenda was the re-election to the board of Post Office chairman, Sir Ronald Dear.

Is it possible that a similar letter from Lord Lane has been mislaid by Havers' civil servants?

Sound solution

A typical Japanese face saving compromise has been found for the problem of replacing Shiohichi Saba as chairman of the Electronic Industries Association of Japan (EIAJ). Saba was obliged to stand down after resigning as chairman of Toshiba in the wake of the furore over a Toshiba subsidiary's sales of sophisticated machine tools to the Soviet Union.

The president of Hitachi, Katsuhiko Mita, was in line to succeed Saba, but not until May, 1988. The EIAJ governors were worried that if they elected him immediately and allowed him to take over the rest of Saba's term plus his own two year stint, that might be construed as a censure of Toshiba.

Yesterday, they did elect Mita, but only for a normal two year term effective immediately. And Saba was appointed an adviser to the board for one year.

Here and there

As takeover rumours continue to swirl around Morgan Grenfell (this week it was Lloyds Bank and/or Shearson Lehman) at least one person seems no longer in the market. John Craven, Morgan's new chief executive, after only 10 weeks in the job, Craven has taken off for a two week holiday in Canada, a country where he once worked and whose passport he carries

(He has dual nationality). It was unable to establish whether he has gone on one of those fishing trips where they fly you to remote lakes for a week of total peace. But I suspect that he cannot be far from a telephone.

In his absence, the man holding the fort is Christopher Whittington, who got the job of chief operating officer in Craven's first big management reshuffle three weeks ago.

Second post

The Post Office did not deliver at least one shareholder's proxy form and admission card for Whittington's annual meeting until after the meeting had ended yesterday. Just coincidence, I suppose, that item three on the agenda was the re-election to the board of Post Office chairman, Sir Ronald Dear.

In the act

"Olympia" finally spread to Hollywood this week, when a group calling themselves "environmental artists" used sheets of black plastic and parachute material to alter the famous "Hollywood" sign to "Olympia."

The American public has embraced Oliver North as a national hero, and we are simply reflecting the public sentiment," said a member of the group.

Others suggested that perhaps the altered sign, which stands high in the hills above the movie capital, reflected admiration for the lieutenant colonel's dramatic talents.

Basic error

I mentioned the other day that the technological buzz words of the communications and computer industries were causing some confusion. A reader now writes to say that for many years, he thought MS/DOS was a type of disinfectant that not only killed "all known germs" but software bugs as well.

Observer

MESSINA LIMITED

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Platinum exploration in Lebowa

The board of directors announces that drilling of the exploration area is virtually complete.

Drilling results show proven ore reserves on 123 km of the Merensky Reef (down to a vertical depth of 800 metres) on the farms Dorevlei, Kafferkara and Zebedee's Location of approximately 19 million tons with an average platinum group metal content of 6.4 grams per ton. In addition projected Merensky Reef ore reserves from 800 to 1500 metres vertical depth on these farms are estimated at 27 million tons.

Proven ore reserves on the UG2 Reef (down to a vertical depth of 800 metres) on the farms Dorevlei, Kafferkara and Zebedee's Location amount to approximately 35 million tons with an average platinum group metal content of 8.2 grams per ton. In addition projected UG2 Reef ore reserves from 800 to 1500 metres vertical depth are estimated at 43 million tons.

Ore reserves have not yet been established for the remaining 37 km length of the Merensky and UG2 Reefs in the western portion of Zebedee's Location and exploratory drilling in this area will continue. The mineral lease application extends over an area of approximately 5500 hectares which covers the projected dip of the reefs to a depth of 4000 metres.

At this stage it is necessary to ascertain underground mining conditions and to extract a bulk sample to complete metallurgical test work. It is therefore intended, upon finalisation of the mineral lease agreement, to commence drilling on a very limited scale to deliver ore at the rate of 5000 tons per month to a pilot plant. The trial mining will be established on a basis which will permit expansion thereof for future production. During this period further investigation will be carried out into the treatment and refining as well as the marketing of the company's anticipated production.

Capital expenditure required for the trial mining and establishment of a pilot plant is estimated to be R10 million. A further announcement will be made in due course.

By order of the Board
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 16 July 1987

Lord Cockfield on the European Commission's proposals for reform of indirect taxation

An essential step in a long march

OUR OBJECTIVE is the economic revitalisation of Europe. We have been losing ground remorselessly compared with our major competitors, in the US, in Japan, in the emerging industrial countries of the Far East. In the European Community, 16m people are unemployed, 3m in the UK alone. Over the past few years Britain has shown an encouraging rate of growth, but from a very low base. The other major economies of the Community can barely manage a growth rate of 2 per cent. With this performance there is little hope of reducing unemployment: little hope that Europe will be able to hold its own with its major competitors, alone catch up the lost ground.

One of the major reasons for this indifferent performance is the continued fragmentation of the Community market. Instead of acting as a single economic unit of 320m people—almost as big as the US and Japan combined—we still act essentially as a dozen separate markets, a dozen individual economies, divided from one another by different laws, regulations, and currencies, and even conflicting economic policies. It will take many years to

weld Europe into a single great economy. But there is one thing we can do, and do within a reasonable span of time. That is to create a single great market in Europe—described in the Single European Act as "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured"—and to achieve it by 1992. There is nothing new about this: it was the original intention of the Treaty of Rome 30 years ago and has been repeatedly reaffirmed by the Heads of Government. What is new is the detailed planning in the white paper of 1986, the determination to do the job "completely and effectively" and to do it by 1992; and its incorporation in the Single Act which has been ratified in national legislation in all 12 member states.

The approximation of indirect taxation is an essential part of this programme. Significant differences in indirect taxation are one of the principal reasons for the maintenance of frontier controls. They obstruct the free movement of goods and of people, create distortions of competition and deflections of trade. There is nothing new about the approximation of indirect taxation: it appears in the Treaty of Rome; in innumerable directives and decisions by the Council of Ministers; in successive declarations by the Heads of Government; and in the Single European Act. The Heads of Government meeting at Milan in 1985 delegated the task of devising the necessary measures to the Council of Finance Ministers. The Ministers delegated the task to the Commission. The Commission has now produced the proposals. The wave of shock—in some quarters bordering on hysteria—which has greeted these proposals reflects a sense

of astonishment that anyone should do what they were asked to do in the political field. This has been compounded by the fact that most of those most vigorous in their criticism have stopped short of actually reading the proposals. The Commission has based its approach on two principles: that of "harmonisation", our proposals simply reflecting the common practice of the member states; and the principle that no more than necessary will be done if there is to be no serious deflection of trade once the frontiers are removed. This is why we talk of "approximation" rather than "harmonisation".

There has been considerable criticism of what is alleged to be an attempt by the Commission to abolish zero rates of VAT in the UK on items of basic necessity. This is completely to misread both the situation and the proposals. If 10 member states tax these items at a reduced rate, as they now do, then any process of "harmonisation" must start from that point. But to avoid any misunderstanding we inserted the words: "It is important to read this list of items proposed to be charged at a reduced rate in conjunction with what is said . . . below about zero rates." As an added precaution these words were printed in heavy type, but to little avail.

The fact that some countries would face considerable difficulties was stressed in the 1985 white paper and repeated in the present proposals. We have said very clearly that derogations might be needed to meet these problems; and that this was likely to be of particular importance in the case of zero rating. A "derogation" is simply an exception from the general rule; it is important to bear in mind

that zero rates in the UK are themselves a derogation, and that under existing Community law, adopted in 1977, this derogation is temporary. We considered whether we should take the initiative and propose such derogations. There are a number of reasons why we did not. The UK is not the only country affected—Ireland makes extensive use of zero rates and many other countries exempt items from tax in highly specific if limited cases. Clearly the Commission could not, and indeed ought not, to decide what the reaction of these countries would be. Also every derogation carries a price—at the extreme it may require the maintenance of frontier controls—and it is for the member state to assess that price and decide where the balance of advantage lies. Other member states, too, may be affected by resulting

distortions of competition or deflections of trade; if you are a member of a community, you have a duty to fellow members and cannot ignore their interests. What we have suggested, therefore, is that member states study the proposals and consider what difficulties they present. The Commission would then discuss derogations which member states in difficulty might feel they need. The matter would be taken forward from that point in the usual Community framework. But this dialogue cannot begin until the Commission's proposals have been studied and evaluated by all concerned. This is the way the Community handles its problems. We have to stand together to find Community solutions to Community problems.

The first objective of the Treaty of Rome, which established the Community, was the preservation of peace in Europe. In that it succeeded, United Europe can face and succeed in meeting the challenges of the future, both economic and political. He would be a bold man who claimed that Britain on its own could do as much.

The anxieties and fears which have been aroused over zero rating have been much overdone. But far more is involved than that. The people of Europe have embarked on the long march to European unity—not simply from idealism but from hard economic necessity. There is no way that process can be stopped. The question the UK has to face—pointed out not just by this issue, but more importantly by the disagreements between the UK and the other 11 member states at the recent Brussels summit—is whether Britain wishes to participate in this historic move forward, or to remain an offshore island relying on its own endeavours to meet the challenges that face it.

The author is vice-president of the European Commission and responsible for the internal market.

The yuppie life comes to Portugal

ON JANUARY 1, 1986 Portugal joined the European Community. On July 18, 1987 voters gave Prof Anibal Cavaco Silva and his Social Democratic Party (PSD) the first overall majority ever won in a democratically-conducted Portuguese election. The two events are closely related.

EC membership raised the economic and political expectations of the Portuguese people. After nearly 90 years as Europe's poor relation—battered down in economic backwardness and either querulous political instability or repressive right-wing rule—this nation of 10m people was fed up with timidly knocking at the door of the 20th century.

After generations of apologising for their shortcomings, the Portuguese were ready to assert their self-confidence. Anibal Cavaco Silva embodies that self-confidence. He stands for energy and unshakeable belief in individual capacity. He is the antithesis of the "miserabilismo português"—the view among Portuguese that their country is a chronic catastrophe.

Before completion of the long, difficult and often discouraging negotiations to join the EC, the upbeat message of Prof Cavaco Silva—"O Cavaco" as he is widely known—might have sounded like whistling in the dark. Most Portuguese doubted that they would be accepted into the Community. "We don't have

what it takes" was the frequent refrain. The sense of national identity was shaky. The 1974 military coup ended a colonial empire that had brought prosperity to individuals and a sense of national importance. But even before the coup, the empire had ceased to offer international prestige. Portugal was vilified abroad for an ugly 13-year colonial war in Africa. Hopes raised by the 1974 birth of democracy faded as 16 successive governments changed hands and inflation, overspending, under-production and overborrowing led to constant financial crises.

By the time a little-known 46-year-old central banker, Anibal Cavaco Silva, made a bid for the leadership of the PSD in the spring of 1985, Portugal was ripe for his message of discipline and development. The rise of Cavaco coincided with the culmination of talks on EC accession. But despite the successful outcome of these talks, the coalition of Socialists and Social Democrats which pursued them had degenerated into endless squabbling. The leader of the coalition, Mr Mario Soares, was under pressure because of the fierce austerity plan he had launched to tackle soaring inflation and balance of payments deficits. Few people believed his pro-

mise of better times with EC membership. By May 1985, Prof Cavaco had had enough of what he saw as unnecessarily harsh austerity, and time-wasting bickering both between the coalition partners, and within the PSD, a party of 100,000 members. He formed a minority government that he commanded a majority. It found little difficulty in baiting an opposition that was large but split between Socialists (21 per cent), the maverick and

visionary leader—formed a minority government that he commanded a majority. It found little difficulty in baiting an opposition that was large but split between Socialists (21 per cent), the maverick and

Diana Smith in Lisbon on the country's struggle to shake off its reputation as the poor relation of Europe

Agriculture reform

From Mr C. Smedley
Sir—It is typical of a Common Market commissioner to reject the US proposals for the reform of world agriculture (July 20).

Even before Britain joined the Common Market, it was clear that the Common Agricultural Policy was designed for the Continental European farmer and not for either the British consumer or the world's agricultural marketplace. The years since our membership have seen the evidence mounting in the form of food mountains, increasing farm subsidies and high food prices, let alone the detrimental effect on many world food producers whose basic industry has been decimated by the dumping of European foodstuffs on the world market.

Letters to the Editor

ground to enjoy the fruits of their strategies or to be answerable for them. If UK chief executives were longer in office as are many of their competitors in Japan and Germany, they would be obliged to generate growing profits over a sustained period of time, forcing them to establish the strategies needed to do so. Given clear and far-reaching corporate strategies, the resultant pressure on the marketing planners would force them to develop robust and effective marketing strategies to underpin the company's ambitions. Where company objectives and strategies do not exist or are not clearly thought through and articulated, it is no surprise that marketing strategies are vague and ineffective.

There is some evidence that appreciation of the need for improved strategic planning is growing. It is to be hoped that this will work through to improve the marketing performance of British companies. Adrian Davies, (Chairman), Strategic Planning Society, 15, Belgrave Square, SW1.

table in the article, my firm has had the second highest growth rate of fees in the last year. We have audited a considerable number of public and major company audits in the last 12 months (some from the Big Eight). There has been a substantial increase in international work. We have also been the third most active reporting accountants in the unlisted securities market and have initiated a number of new services.

We do believe your intuition of our demise is somewhat premature! Phillip Sober, 8 Baker Street, W1.

Productivity scheme for MPs
From Mr R. Davies
Sir—Should not MPs be looking to industry for their pay scales rather than to the civil service? After all, it is in the former sector that most progress has been made in improving productivity—partly, of course, by performance-related pay.

If MPs were paid a basic salary of the national median wage, it could be topped up by bonuses related to the UK economy: perhaps a doubling of salary if UK gross domestic product growth exceeds 1 per cent in real terms, and further increases if growth is higher. Hopefully this might encourage everyone to take a more realistic approach to the economy. Robert Davies, 7 Green Trees Avenue, Cold Norton, Essex.

Obstacles to cashless pay
From Ms G. Keane
Sir—The question of methods of wages payment has once more been highlighted by Mr Simon (July 16). Unfortunately, despite the considerable practical advantages of cashless pay, not least the greatly enhanced security, there are also legal and practical difficulties to overcome in moving away from cash payment.

The spread of cashless pay has been hindered by the Truck Acts 1831-1940 which gave manual workers the right to receive their wages in cash, despite any agreement they may have made to the contrary. This anachronistic legislation was repealed by the Wages Act 1986, which came into force on January 1. However, the Act

did nothing to facilitate the introduction of modern payment methods. While cashless pay can be introduced unilaterally into contracts for new employees, the agreement of existing employees is generally required for such a change as there is likely to be at least an implied contractual term that the wages be paid in cash.

Recently, I have had experience of an employee who has refused payment by cheque and is insisting on cash. The irony is that if he sues the employer concerned, the outstanding wages will be paid into the appropriate County Court, who will then pay the individual by cheque!

Such instances are, however, rare. Employers and employees are becoming far more aware of the administrative savings and greater security of cashless pay. Nevertheless, there is still much progress to be made. Approximately 30 per cent of all employees are still paid in cash compared with less than 20 per cent in Holland and Sweden, 10 per cent in France and 5 per cent in West Germany. It is also noteworthy that more than 5m UK workers receiving their wages in cash already have bank accounts.

The savings to employers, estimated in some cases to be as high as 1 per cent of payroll together with the increased security, would seem to be an overwhelming incentive for employers to tackle and overcome the practical obstacles to the introduction of modern payment systems. Georgina Keane, Employment Unit, Tintins Salter Webb, 2 Serjeants' Inn, ECU.

BAA share offer
From Mr P. G. Dowry
Sir—I was most disturbed to find on your front page, prior to tender closing date, comment indicating that tenders had already been opened. I hope the SIB takes note and stops this practice which greatly disadvantages the private investor who must rely on the most unreliable postal system to bid. If opened, a potential for leaking commercially sensitive information is created—experience shows that where a "quick buck" is involved, someone will try to succeed. Even your news that an unexpectedly high level of private individual tenders had been received was, or should have been, "inside information," of some use to the professional institutional fund manager.

Tenders should most certainly remain sealed till the closing time, even the fact that I had bid to be confidential till then. I am disappointed in BAA and the Government. P. G. Dowry, 6 Hindhead Close, Crawley, West Sussex.



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K.K. Sharma in New Delhi assesses the dangers facing the Indian Prime Minister

Political storms fail to divert Gandhi

MR RAJIV GANDHI, India's Prime Minister, is dealing with the crisis in the country's politics with the nonchalance of a trained pilot (which he was until his entry into public life) whose aircraft is going through some turbulence. Asked yesterday for his comments on the current scene, he smiled and said unabashedly, "I don't see any problem".

If Mr Gandhi was trying to show that he was firmly in control of events, he was fooling no one. The crisis in the country, and more particularly in the ruling Congress-I Party, has been building up for more than three months, ever since Mr Vishwanath Pratap Singh resigned as Minister of Defence after ordering an inquiry into payoffs allegedly made by Bofors, the Swedish defence contractor, for an Indian contract for howitzers worth \$1.4bn.

Events have moved fast since then. Mr Gandhi has been under such strong attack - for protecting his friends, accused of corruption and stashing foreign exchange in Swiss banks and then facing direct charges of corruption himself - that many believe he is tottering. Some observers think that, unless he shows more skill in handling dissent within Congress-I and the growing disillusionment with his own style of leadership, he could soon be dislodged as Prime Minister.

The crisis took a dramatic turn last week when Mr Gandhi summarily dismissed three se-



Rajiv Gandhi (left) with his former Defence Minister V.P. Singh.

nior dissidents in the party. No reason was given except that they had indulged in "anti-party activities." As one of those removed, Mr V.C. Shukla, who was a senior minister in Mrs Indira Gandhi's government, asked: "Is it a crime to try to change the leadership?"

Mr Gandhi's hamfisted attempt to check dissidents in the party infuriated Mr V.P. Singh, who has emerged as his most powerful rival and a possible replacement because of his slight-minded campaign against corruption. Mr Singh offered to

resign "if it proves embarrassing for the leadership to expel me from Congress-I".

The Prime Minister's response shows just how badly he is floundering. Initially he rejected Mr Singh's offer to resign on the ground that it was "conditional". Then, 48 hours later, he summarily expelled him on the same vague charge of having indulged in "anti-party activities" that was levelled against the three others.

An atmosphere of crisis similar to that in 1975 when fast-moving events led Mrs Gandhi to proclaim emergency rule now prevails in New Delhi. Rival groups are holding rallies. Slogans are being shouted and Mr Gandhi's more apophantic

followers are competing with each other to try to show that the Prime Minister has massive support.

In fact, Mr Gandhi faces the biggest danger of his political career. The main threat comes from allegations of corruption against people both close to him and also directly opposed to him. When parliament begins its monsoon session on Monday, he will be under heavy attack for failing to persuade Bofors to name the people who received bribes and payoffs. The attack will be the more powerful for coming both from the opposition parties and from the expelled dissidents.

The Prime Minister is particularly vulnerable since he is widely believed that Mr Arun Singh, once his close aide, resigned as Minister of State for Defence last week because Mr Gandhi had rejected the Swedish Government's offer to send a delegation to India to find ways to bring out the truth.

The powerful Congress-I party, which has an overwhelming four-fifths majority in parliament, is in any case sharply divided. Dissent has long been festering because of the feeling of many of the senior members that Mr Gandhi behaves arrogantly and with complete disregard for their views.

Now the dissenters have a rallying point: Mr V.P. Singh, whose integrity and incorruptibility is now rated higher than Mr Gandhi's, the Prime Minister having long lost his "Mr Clean"

image. Much will depend on how Mr Gandhi and Mr Singh decide to play out their strategies from here. So far, Mr Singh looks the nimbler and least accountable of the two.

Mr Singh is planning a countrywide campaign for "mass contact", both on his own and with the help of his opposition parties, although his relations with these parties are very blurred. Since he is not certain how many Congress-I members will join him, Mr Gandhi is likely to be forced to expel a few more.

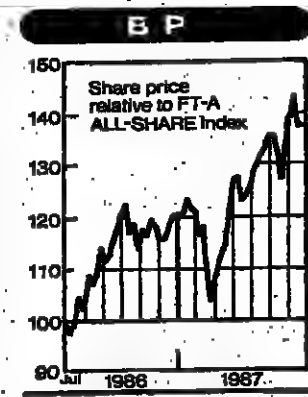
Mr Singh's campaign will be largely outside parliament, as was that of Mrs Gandhi's antagonist, Mr J.P. Narayan, in 1975.

Mr Gandhi, on the other hand, is relying on the support of the large and unwieldy Congress-I parliamentary party. The main reason he will probably succeed is that any major and irrevocable decision at this stage, and the desire to keep their seats and stay in power is a strong incentive for unity.

At the same time, Mr Gandhi is adopting a highly populist stance which is dragging him, against his previous inclination, leftwards.

THE LEX COLUMN

BP taps a rich field



During numerous privatisation campaigns the British Government has frequently indicated to its advisers that it could probably do their job better itself. Now it appears to be putting its money where its mouth is, by - if only for a split second - acting as principal in a £1.5bn oil deal. But the likes of Goldman Sachs and Salomon Brothers do not need to look to the laurels. For the Government is agreeing to pay British Petroleum all the £1.5bn the company requires from a rights issue in October, but will sell on the shares to the public in instalments, over a period of up to 18 months.

This could cost the Government at least £100m in lost interest. It will be interesting to see what sort of fee NM Rothschild (in the Government corner) persuades SG Warburg (acting in the BP interest) to extract from the company in recompense. Doubtless BP will point out that by depressing its up-front receipts from the BP share sale, the Treasury will be strengthening its hand in forthcoming negotiations with the spending ministries.

The institutions would be wrong to complain about receiving their rights through an offer for sale price which is likely to be at a smaller discount than the standard rights issue inducement. The value of receiving their entitlement in partly paid form could alone be equivalent to a discount of about 6 per cent.

BP itself would have liked to have had its rights issue immediately after the acquisition of the Standard Oil minority in May. However the Government felt that this would harm the chances of a good environment for the sale of its own stake, which has grown in value from £4.7bn to £7bn in the four months since it announced its intention to sell. Yet it is no means clear why one share issue of £1.5bn and one of £7bn is less palatable than basing the two together. But the route chosen could be very helpful to BP in its battle to persuade the Government to place at least 25 per cent of its share stake overseas. With the domestic market already hit for the vast majority of the rights issue element, other markets will be that much more necessary to take up the slack.

The sale of new shares will reduce BP's gearing from about 43 per cent to about 33 per cent, and signals the company's desire to be able to make a big acquisition on the run. If it comes to picking the flesh from Texaco, BP does not want to be an undercapitalised vulture.

FKI/Babcock

It is difficult to know whether to celebrate the ingenuity and dynamism of the capital markets for providing FKI Electricals with the means to release Babcock International from its purgatory, or bemoan the fact that those markets had trapped Babcock there in the first place. We are, of course, back in the rating game. And despite the best efforts of Mike Hoffman (new broom turned sacrificial lamb), the combination of high tax charge, conservative accounting, and stubbornly low margins prevented Babcock achieving the higher rating necessary to grow by acquisition into a friendlier margin business.

At least that heavy investment in updated plant and industrial relations has ensured a pretty decent cash price for Babcock shareholders at 17 times prospective earnings.

Yet, however much the deal is dressed up as a management buy-in, it is difficult to find many good reasons for accepting FKI paper. The management has an excellent five year record in the junior leagues but may be riding an over-stretch, particularly following the recent acquisition of Stone International, and there is not very much in the new divisional structure that was not in the old. FKI could, it is true, enjoy several benefits that were necessarily denied Babcock. Both the tax charge and overheads

would head down and the benefits of acquisition accounting should push up earnings, despite the market's new sensitivity in this area. Nevertheless, the rather strange decision to limit the post-acquisition rights issue to FKI shareholders not only risks dilution for them, but leaves Babcock providing two-thirds of the profits and pocketing only half of the equity. The current prospective rating for the combined group will be hard to sustain once fearful underwriters are no longer in the market, and the many yield-seeking Babcock shareholders must be hoping that a better paper offer may yet emerge from somewhere.

Tyndall/Clayton

These are giant-killing days. While FKI was knocking off Babcock yesterday, little Tyndall Holdings (market capitalisation \$77m at 40p) was announcing its own agreed £24m cash reverse bid for Clayton Robard, one of Australia's leading unit trust groups.

Tyndall has clearly been studying WPT's recent successful offer for JLT. There is a roughly similar rights issue, with success-sealed sub-underwriting commissions which in this case are three times as big as Tyndall's. And with the help of friendly investment institutions Tyndall has also acquired a stake in its target company to give it comfort that it will be able to cope with the expenses of the bid should an overbidder appear.

There are also important differences, not least that Clayton has agreed terms, and has strong management connections with Tyndall. Moreover the latter's pledged 30 per cent stake in Clayton has mostly been acquired from the Darling family, rather than through the market and it could have bought more had Australian takeover rules and London Stock Exchange requirements not got in the way.

Tyndall will be content with bare 50 per cent control and wants to retain the Australian listing for Clayton Robard. But the rest of the Darling shares will only take it to 40 per cent, and since it is paying a scant 5 per cent or so premium over the recent market price, other shareholders are unlikely to rush to accept, at any rate while potential counterbidders may be doing their sums.

British engineering group agrees takeover

By Clay Harris in London

BABCOCK INTERNATIONAL, the UK engineering and contracting group which carries one of the most historic names in British industry, yesterday agreed to a £435m (\$664m) takeover by FKI Electricals, a much smaller company which has shown an undying appetite for acquisitions since it came to the London stock market only five years ago.

FKI Babcock, the new combined group, will have annual sales of £1.5bn and employ more than 30,000 people worldwide. FKI will bring less than one-sixth of each figure to the marriage, which both companies described as a merger.

FKI took the unusual step of declaring that the terms of its offer were final and would not be increased even if another bidder emerged to put forward a higher price.

If the bid succeeds, FKI will trigger a one-for-three rights issue at 182p to raise £24m to reduce the combined group's net borrowings, all of which will come from Babcock.

Mr Tony Garland, FKI chairman who will become chief executive of the new group, said that Babcock would require rationalisation, with a particular focus on overseas and on the size of it, it is probable that there will be things that it would be more prudent to dispose of. But we don't know what they are. The deal had not been predicated on any specific asset sales.

Lord King, Babcock chairman, made clear, however, that after his company's heavy capital investment during a gap of more than 10 years in UK power station orders, "whoever bought it would have to give us a large slice of tomorrow's profits today." He will be chairman of the combined group.

FKI's emphasis on margins is underlined by its pre-tax profits of £11.3m on turnover of £83.6m in the year to March. Although FKI has subsequently more than doubled the annual sales figure with the agreed takeover last month of Stone International, the ailing systems engineer, the combined total is still dwarfed by Babcock's 1986 sales of £1.2bn, on which it achieved pre-tax profits of £37.1m.

FKI is offering 17 of its shares for every 10 of those in Babcock. With FKI shares losing 15p yesterday to close at 188p, the offer values Babcock shares at 319.6p. There is a 310p cash alternative.

Returning Afrikaner liberals evade right-wing protesters

By Anthony Robinson in Johannesburg

HUNDREDS of brawling, right-wing Afrikaners turned up at Johannesburg's Jan Smuts Airport yesterday to vent their rage against the returning Afrikaner delegation which has spent the last two weeks talking with the banned African National Congress in Dakar and visiting black Africa.

But senior police and airport officials met the delegation and persuaded them to call off their planned press conference and leave by a side exit.

A large police contingent lined up in the arrivals area to prevent clashes between the Afrikaner Resistance Movement (AWB) and delegates, and between the AWB and small groups of students and civil rights organisations who came to applaud.

In the confusion Mr Ernie Stark, dressed in a white coat with a hammer and sickle emblem on the back and representative of an organisation calling itself "Victims Against Terrorism", covered himself and his coat in blood-like tomato ketchup to dramatise his contention that the ANC is getting away with murder.

AWB supporters around their leader, Mr Eugene Terre-Blanche, meanwhile chanted and yelled "traitors, rubbish, crum!" and "we will not let them go" when it became clear that the delegation would not appear.

Mr Terre-Blanche, hoisted on to his supporters' shoulders, promptly called them "cowards who are afraid to look the vultures in the eye".

Some of his most extreme supporters, who included a woman with a spray can of black paint to paint their faces as black as their hearts and a man who wanted to see the delegates tarred and feathered, vented



Right-wing Afrikaners, including their leader Eugene Terre-Blanche (centre), vent their rage at Jan Smuts Airport.

their spleen by smashing the spectacles of an Indian bystander and roughing up a couple of students.

Police intervened to arrest some students who incautiously started singing the first bars of the African national anthem, Nkosi Sikelele i'Afrika. The police then lined up and charged television cameramen and photographers standing on the other side of the airport road. After a chase several photographers were arrested. The AWB in the meantime dispersed, apparently without any arrests being made.

Shortly after this slice of South African life, Mr Christo Nel, former leader of the Federated Chambers of Industries Project Free Enterprise and member of the Dakar delegation, gave his assessment of the talks at an impromptu press conference at a nearby hotel.

Recalling that many delegates had initial difficulties adjusting to the reality of the ANC compared to their perception of it, Mr Nel said the ANC were not terrorists "but a group

which not only can but must be spoken to." He said: "It is an illusion to think that whites can negotiate with blacks without including the ANC."

Praising the analytical and debating skills of the ANC party, Mr Nel said the ANC was not insisting on a transfer of power from whites to the ANC but a transfer from a minority government to one which represented the majority of people.

It would sit down to negotiate "with anybody who accepts a non-racial democracy," he added. The talks "between South Africa and the ANC" had "no illusions about an end to revolution tomorrow and understood the power of the security forces and the danger of white reaction."

On economic policy, he added, "the ANC is in favour of a mixed economy, although the proportions and other details were not explored in depth." The returned delegation would be prepared to speak to the Government or anybody else, including the AWB, about its im-

Fiji told not to declare a republic

By our Foreign Staff

Britain, the US, Australia and New Zealand are waging a quiet but determined campaign to dissuade Fiji from declaring itself a republic.

Separately, but in a jointly agreed campaign, they have warned Ratu Sir Penaia Ganiau, the Governor-General, who is running a country under emergency rule, that the costs of such action internationally will be high and could include permanent exclusion from the Commonwealth, which will discuss the Fiji crisis at its meeting in Vancouver in the autumn.

The diplomats have also warned Ratu Ganiau that if a new constitution is proclaimed which disenfranchises the Indian population or excludes them from any possibility of power-sharing, other Commonwealth states, notably India, will be likely to follow the parallel with South Africa.

The pressure coincides with a critical meeting of the influential Council of Chiefs in the capital Suva, at which the idea of declaring a republic is being discussed.

Both the Governor-General and Dr Timoci Bavadra, the former Prime Minister, whose newly elected coalition government was ousted in a coup in May, are believed to have counselled strongly against such a move.

Britain has been leading the diplomatic pressure since immediately after the May 14 coup the British Government took the view that Fiji was an independent Commonwealth state and that the difficulties were being created by the play of Elizabeth and her advisers but not for the Government.

Since then, however, the Foreign Office has accepted that Britain has a decisive diplomatic role to play and the British High Commissioner in Suva has been in close touch with the Governor-General.

The joint diplomatic initiative aims to make the Fijians understand clearly the consequences of their actions. Since the coup it has been clear that many prominent Fijians have not fully thought through the consequences in terms of trade, vital aid programmes and tourism of their actions, with the result that the country has become isolated diplomatically as its economy has spiralled into decline.

Reports from Suva yesterday indicated that some powerful members of the Council remained committed to retaining Fiji's links with the Queen, who is the country's head of state, and to its currently suspended democratic forms.

Although the diplomatic pressure is being waned by the US, the US went public yesterday when its charge d'affaires in Suva, Mr Eric Sherman, said "The creation of any system in Fiji which does not respect and protect the rights of all Fiji's people, regardless of its label, should not expect support from the United States. Any resumption of our previous relationship would depend upon a resolution of the present political crisis which protects the interests of all the people of Fiji."

Fiji receives about \$2m a year in aid from Washington. This aid has been in abeyance, but not formally suspended, since the coup.



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World Weather

Area	Temp	Wind	Cloud	Pres	Area	Temp	Wind	Cloud	Pres
Alaska	22	10	10	1010	Europe	18	10	10	1010
Algeria	28	10	10	1010	France	18	10	10	1010
Argentina	22	10	10	1010	Germany	18	10	10	1010
Australia	22	10	10	1010	Italy	18	10	10	1010
Bahamas	28	10	10	1010	Japan	18	10	10	1010
Bahrain	28	10	10	1010	Kenya	18	10	10	1010
Bangladesh	28	10	10	1010	Libya	18	10	10	1010
Barbados	28	10	10	1010	Madagascar	18	10	10	1010
Belize	28	10	10	1010	Mali	18	10	10	1010
Bermuda	28	10	10	1010	Mexico	18	10	10	1010
Bhutan	28	10	10	1010	Morocco	18	10	10	1010
Bolivia	28	10	10	1010	Nepal	18	10	10	1010
Brazil	28	10	10	1010	Netherlands	18	10	10	1010
Bulgaria	28	10	10	1010	New Zealand	18	10	10	1010
Burkina Faso	28	10	10	1010	Nigeria	18	10	10	1010
Burundi	28	10	10	1010	Poland	18	10	10	1010
Cambodia	28	10	10	1010	Portugal	18	10	10	1010
Cameroon	28	10	10	1010	Romania	18	10	10	1010
Canada	28	10	10	1010	Russia	18	10	10	1010
Cape Town	28	10	10	1010	Senegal	18	10	10	1010
Chad	28	10	10	1010	Sierra Leone	18	10	10	1010
China	28	10	10	1010	South Africa	18	10	10	1010
Cote d'Ivoire	28	10	10	1010	Spain	18	10	10	1010
Cuba	28	10	10	1010	Sweden	18	10	10	1010
Cyprus	28	10	10	1010	Switzerland	18	10	10	1010
Czechia	28	10	10	1010	Tanzania	18	10	10	1010
Dominican	28	10	10	1010	Togo	18	10	10	1010
Dominica	28	10	10	1010	Tunisia	18	10	10	1010
DRC	28	10	10	1010	Turkey	18	10	10	1010
Egypt	28	10	10	1010	Uganda	18	10	10	1010
El Salvador	28	10	10	1010	Ukraine	18	10	10	1010
Equatorial Guinea	28	10	10	1010	USA	18	10	10	1010
Ethiopia	28	10	10	1010	Venezuela	18	10	10	1010
Ghana	28	10	10	1010	Yugoslavia	18	10	10	1010
Guatemala	28	10	10	1010	Zambia	18	10	10	1010
Haiti	28	10	10	1010	Zimbabwe	18	10	10	1010
Honduras	28	10	10	1010					

US rejects Soviet offer

Continued from Page 1

derlying causes of tension in the region".

The international oil market yesterday reacted to signs that Gulf tensions had temporarily eased as a result of the Security Council resolution. Oil prices fell sharply, partially reversing the gains of the last two weeks.

On the New York Mercantile Exchange, the price of West Texas intermediate crude yesterday morning dropped by 65 cents to \$21.55, although later in the day it had recovered slightly to \$21.80. In London Brent prices for August delivery closed 27.5 cents lower at \$20.35.

In New York selling was particularly heavy as traders took profits accumulated over the past fortnight, during which prices have risen by nearly \$2 a barrel.

Separately, however, the diplomatic row between France and Iran continued unabated as talks about the repatriation of their diplomats following the break in relations between them on Friday appeared to reach stalemate.

France said yesterday that it would give a military escort to two French oil tankers sailing through the Gulf this week.

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Wednesday July 22 1987

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Citicorp's
underlying
earnings
up 22%

By Our New York Staff

CITICORP, the biggest US banking group whose decision to boost its loan loss reserves has prompted all the major US banks to report large second-quarter earnings, said yesterday its latest earnings would have increased by 22.5 per cent to \$2.58bn, had it not had to add \$3bn to its loan loss reserve.

The New York-based banking group says that its consumer business continues to report "good earnings" but its business with corporations, governments and financial institutions continues to be adversely impacted by the absence of interest payments from Brazil and the relatively high level of write-offs that have existed for several quarters.

Citicorp's foreign exchange trading revenues were up and securities trading results were down from the first quarter but the group "continues to be encouraged by this performance relative to some major competitors." Citicorp lost \$2.58bn in its second quarter or \$1.87 per share.

By contrast with Citicorp's strong underlying performance, Manufacturers Hanover reported yesterday that its second quarter earnings, excluding the \$1.7bn addition to loan loss reserves, were 6.5 per cent down at \$88.4m.

Wells Fargo, the last of the major US banking groups to announce a strengthening of its reserves for losses on loans to third world countries, lost \$293.7m, or \$5.56 per share, in its second quarter after adding \$550m to its reserves.

The tenth biggest US banking group said that without the effect of the special addition to reserves its net income would have risen by 38 per cent to \$83.6m, or \$1.45 per share.

The \$550m addition to Wells Fargo's reserves increases its loan loss allowance to \$1.29bn or 3.5 per cent of loans. The group says that at least 40 per cent of its \$1.4bn of cross-border, outstanding loans to developing countries is covered by the loan-loss allowance.

Meanwhile, Bankers Trust, which had already warned that it would lose around \$570m in the second quarter because of the boost to its reserves, reported a loss of \$554m, or \$7.85 per share.

Bankers Trust says that if the effects of the special addition are excluded its second quarter earnings rose 11 per cent to \$116m, or \$1.84 per share.

Mr Charles Sanford, chairman, said that other than the effects of the special provision, the group's second quarter results were boosted by higher non-interest income and by interest income, partially offset by increases in non-interest expenses and income taxes.

Non-interest income increased by \$100.2m to \$288.9m primarily because of record foreign exchange trading income. However, the company lost \$8.3m on its trading account compared with net income of \$19m last year.

First Interstate Bancorp, which announced a special addition to its reserves on June 11th, yesterday reported a second quarter loss of \$489.8m, or \$10.00 per fully diluted share.

Abitibi-Price
moves ahead

ABITIBI-PRICE, the world's largest newspaper maker, felt the impact of strong demand and higher prices in the second quarter with earnings at \$36.2m (\$27.5m), or 40 cents a share, up from \$32.5m, or 39 cents a year earlier, on sales of \$758m against \$701m, reports Robert Gibbons in Montreal.

Profit for the first half was \$58.1m or 78 cents a share, up from \$50.2m or 69 cents a year earlier, on sales of \$1.4bn against \$1.34bn.

The company expects the strong newspaper market to continue in the second half and will get the benefit of another newspaper price increase from July 1.

Chrysler second quarter
result beats expectations

BY JAMES BUCHAN IN NEW YORK

CHRYSLER, the third largest US motor manufacturer, yesterday surprised Wall Street with stronger than expected net income for the second quarter and a 12.5 per cent growth in revenues despite falling unit sales.

Chrysler yesterday reported earnings in the June quarter of \$428.1m or \$2.4 a share, down from \$448.2m or \$2.19 a share in the 1986 second quarter.

But last year's result included a once-and-for-all capital gain of \$131.8m after tax on the sale of Chrysler's holding in Peugeot.

In operational terms, earnings were 20 per cent ahead of last year's \$356.3m or \$1.80 a share and Chrysler stock jumped 51% to \$39 in early trading.

Sales were \$6.41bn, up from \$5.70bn in the 1986 June quarter, despite a decline in factory sales of 2.5 per cent to 538,122.

"It's important to note that these higher earnings took place while unit sales were going down," said Mr Lee Iacocca, chairman of Chrysler.

"Our earnings are up in a down

market as a result of Chrysler Motors' plan to put heavy emphasis on trucks and move upscale to a richer product mix in our car line."

In addition, Chrysler Financial, the company's credit subsidiary, reported record net income of \$60.3m against \$46.4m.

In the course of the June quarter, Chrysler Motors' share of the truck market increased 1.5 percentage points to 14.8 per cent.

Its overall share of the North American car and truck retail market rose 0.1 percentage point over the first quarter to 12.2 per cent.

American Motors Corp, the medium-sized US car producer which is in the throes of being taken over by Chrysler, is continuing to recover from heavy losses and has produced a second-quarter net profit of \$30.2m - its third consecutive quarterly profit.

Mr Joseph E. Cappy, AMC's chief executive said the 1987 improvements were the result of strong worldwide Jeep vehicle sales and a richer product mix. Other factors were "improved operating margins, higher utilisation of manufacturing

capacity and continuing improvement in manufacturing efficiencies."

Domestic AMC Jeep sales rose by 31 per cent to 60,874 units in the latest quarter and for the six months, sales of AMC's most famous product rose by 20 per cent to 115,506. Domestic sales of AMC automobiles rose by 3.3 per cent to 18,080 in the latest period and for the six are 5.6 per cent ahead at 36,460.

The latest earnings compare with a loss of \$32m in the comparable quarter of last year and a profit of \$20m and \$13.4m in the previous two quarters. The group's net sales in the latest three months rose by 50 per cent to \$1.2bn.

For the first six months of 1987 AMC earned \$53.7m, or 29 cents a share, compared with a loss of \$71m, or a loss of 70 cents a share. Sales rose by more than a third to \$2.3bn in the first six months.

American Motors shareholders are due to meet on August 5 to approve Chrysler Corporation's acquisition of the company which until now has been controlled by France's Renault Group. Chrysler is offering \$4.50 per AMC share.

American
Express
posts loss
of \$47.9m

By Roderick Oram in New York

AMERICAN EXPRESS, the financial services conglomerate, has reported a small second-quarter loss, as forecast, because of a \$600m addition to loan-loss reserves for Third World debt.

The loss was \$47.9m, or 12 cents a share, against a net profit of \$358.9m, or 79 cents a year earlier. First-half profits were \$204.4m, or 45 cents a share, compared with \$679.9m, or \$1.49, a year earlier, although this is inflated by \$139.6m from the sale of the company's interest in Warner Amex, the cable TV group.

Revenues in the latest period totalled \$4.25bn, compared with \$3.62bn, and in the first half \$7.85bn from \$7.02bn. For the full year American Express is expecting one of its highest-ever profits.

The additions to loan-loss reserve, equal to \$320m after tax, pushed American Express Bank to a second-quarter loss of \$48.5m compared with a net profit of \$43m a year earlier. The bank continued to redirect its activities into fee-generating business and away from traditional lending.

Loss reserves now total \$780m, or about 38 per cent of Latin American loans or 10.4 per cent of all loans outstanding. The higher reserves "afford us a new level of flexibility," Mr James Robinson, chief executive of American Express, said.

The bank's losses were largely offset by a strong performance by traditional businesses such as charge cards and travellers' cheques.

It also benefited from a \$142m after-tax gain following the sale of a 30.4 per cent stake in Shearson Lehman Brothers.

It assumed its present form in September last year when Kotlitz Limited merged with Keywest Investments, an investment management company built up by Mr Harrison during the previous four years. Mr Harrison, a former stockbroker, then returned to the UK to run Tyndall.

Tyndall Holdings offers £214m
for Australian financial group

BY DAVID WALLER IN LONDON

IN AN EFFECTIVE reversal of the "Ron Brierley" principle - whereby entrepreneurial Antipodeans acquire UK companies - Tyndall Holdings, the UK financial services and investment management company, has launched an agreed £214m (US\$342m) cash offer for Clayton Robard, a leading Australian financial services group.

The combined companies will have a market capitalisation in excess of £250m, (A\$367.5m) compared to Tyndall's market worth of £135m immediately prior to yesterday's announcement. This assumes that Tyndall owns no more than 75 per cent of Clayton's equity, as it intends to retain the company's listing on Australian Stock Exchanges.

Analysts predict that in calendar year 1988, the new group should achieve attributable profits of £18m. Formed last November out of the merger of two subsidiaries of Aetna Life, the US insurance company, with Brint Investments, a former shipping company, Tyndall was expected prior to the deal to make pre-tax profits of £4m next year.

According to Mr Garnet Harrison, the 35-year-old managing director of Tyndall, Clayton Robard occupies a "pivotal position" in the Australian financial services industry. It owns Associated National Life Insurance, Australia's eighth-largest life insurance company, and at the end of June had funds under

management of \$1.5bn.

Clayton is the leader in the Australian market for unit trusts and unit-linked life products, with between 12 and 15 per cent of the market. ANLI's total premium income was A\$300m for the year to June 30, and during the past three months sales of new products have averaged A\$60m a month.

It assumed its present form in September last year when Kotlitz Limited merged with Keywest Investments, an investment management company built up by Mr Harrison during the previous four years. Mr Harrison, a former stockbroker, then returned to the UK to run Tyndall.

South African fertiliser group
suffers from slack demand

BY JIM JONES IN JOHANNESBURG

CONTINUING SLACK demand for fertilisers and agricultural chemicals restrained the growth in profits of AECI, South Africa's largest diversified chemicals group, in the first half of this year.

However demand is expected to improve during the second half of the year, the normal planting season for grain crops, and the directors forecast an acceleration in the profit growth rate.

The first half's turnover increased to R1.48bn (\$4.38m) from R1.30bn in the first half of 1986 as domestic, non-agricultural sales volumes rose by 3 per cent.

The interim trading profit before tax and finance costs was R153m against R141m and the first half's pre-tax profit rose to R121m from R104m.

Turnover totalled R2.92bn in 1986, the year's trading profit was R332m and the pre-tax profit was R283m.

Mr Mike Sander, the managing director, says factory loadings improved and that this led to a significant increase in the profits of the non-agricultural products divisions.

Mr Chris van Solms, who heads the explosives and fertilisers division, believes that competitive price cutting will not affect fertiliser sales this year and that maize farmers, who suffered lower than expected crops this past season, will increase their use of fertiliser.

The group is planning two major projects - a soda ash production in Botswana and a synthetic plant in South Africa. At present work on synthetics is largely confined to improving processes.

The plant itself will be delayed by the advent of the Mossel Bay offshore gas and synthetics venture, which will absorb a considerable part of the capacity of South Africa's engineering sector. As a result AECI's project will only be started once Mossel Bay's construction starts to wind down.

AECI picked up the Botswana venture when BP abandoned it a year ago. It involves recovery of salt and soda ash from the Makgadikgadi pans in the north of the country, but awaits government approval.

Interim earnings rose to 53 cents a share from 45 cents and the interim dividend has been held unchanged at 35 cents. Last year's earnings were 113 cents and the total dividend was 80 cents.

Amdahl books record second quarter

BY LOUISE KEHOE IN SAN FRANCISCO

AMDAHL, the US IBM-compatible mainframe computer company, has turned in its highest ever second-quarter result.

Net earnings soared from \$2.7m or 6 cents a share in the second quarter of last year to \$3.1m, or 60 cents a share, on sales up 63 per cent to \$341m from \$209.3m.

This boosted net income for the first half of 1987 to \$56.2m, or \$1.11 a share, compared with \$3.1m, or 11 cents, for the same period last year. Sales for the latest six months totalled \$659.5m against \$409.8m last

year.

Mr John C. Lewis, Amdahl's chairman and chief executive said: "The strong financial performance in the second quarter reflects the continuing demand for our large-scale processor and storage systems."

"Demand continues to improve, we should be able to report financial results in the second half of 1987 that will be somewhat better than those in the first half."

Amdahl added that its higher earnings and sales reflected strong

sales of a new range of processors that it started shipping in mid-1986.

"The earnings pattern is driven by the product cycle," the company said.

In the first half of 1986, Amdahl was at the end of a product cycle and sales and earnings were depressed. In mid-1986, with the launch of its new machines, sales and earnings began to grow.

"We are now shipping everything that we can make," the company said.

Henley Group plans
\$700m share buy-back

BY WILLIAM HALL IN NEW YORK

THE HENLEY GROUP, a collection of unprofitable businesses spun off by Allied-Signal just over a year ago, yesterday announced a \$700m cash tender offer for nearly a quarter of its shares and plans substantially to increase its stake in Santa Fe Southern Pacific, the troubled railroad and energy group.

Henley was floated on the stock market at \$21.25 per share in May 1986 and although it has been quietly restructuring the motley collection of businesses which it inherited, it has kept a relatively low profile. There has been some concern that Mr Michael Dingman, Henley's 55 year old chief executive, might have lost his touch as master reshuffler of corporate assets.

However, yesterday's spate of announcements will reassure Mr Dingman's followers on Wall Street, where he has acquired a reputation

for profitably restructuring unglamorous corporate assets. Henley shares rose by \$2 1/4 to \$30 in early trading yesterday.

Henley will spend \$700m repurchasing 25m of its shares at \$28 per share and will finance the purchase initially through a new \$2.5bn senior revolving credit facility.

The company also announced yesterday that it will file a Hart-Scott-Rodino filing that will enable it to increase its stake in Santa Fe Southern Pacific from its current level of 5.63 per cent to just under 25 per cent. Santa Fe's shares rose \$1 1/4 to \$53 1/4 in early trading yesterday.

Henley's shares have substantially outperformed those of its former parent since it was floated on the stock market last year and yesterday the company underlined its

strategy to enhance the value of its stockholders' investment in the company.

It noted that since it went public 14 months ago, the company has reduced its capitalisation by 18 per cent by buying in its shares; after the conclusion of the current tender offer it will have reduced its outstanding shares by 38 per cent to 78m.

Mr Dingman said yesterday: "During the past year, we have seen major structural changes in the debt and equity marketplace. Capital is readily available to a management group such as ourselves who have the proven ability to operate, restructure and improve the performance of companies. As a result, we believe Henley no longer needs the major equity base it has, to effect even the largest scale transactions."

Allied-Signal income drops by
33% on lower profit margins

BY OUR NEW YORK STAFF

ALLIED-SIGNAL, the diversified US industrial group strong in aerospace and automotive components, has suffered a one-third fall in earnings because of thinner profit and an unfavourable mix of sales.

Net profits from continuing operations fell to \$111m, or 84 cents a share, in the three months ended June 30 from \$171m, or 91 cents a year earlier. This left half-year profits down 23 per cent at \$264m, or \$1.51, against \$343m, or \$1.82.

The aerospace sector was the hardest hit with net profits falling

to \$47m on sales ahead modestly to \$1.16bn from 1.12bn.

Profits from automotive components edged ahead to \$40m from \$37m on a large jump in sales to \$947m from \$737m thanks to a strong automotive original equipment market.

Group sales in the quarter rose 14 per cent to \$2.85bn from \$2.46bn, taking half-year revenues to \$5.48bn from \$4.92bn.

The company, created by the 1985 merger of Allied and Signal, contin-

ued to gain from divestitures outside its core businesses.

A net gain of \$37m from disposals made the final second quarter net \$148m, or 85 cents a share. Income from discontinued operations and other items made the year earlier final net \$175m, or 99 cents.

In the latest period Allied-Signal booked higher profits from its UOP process technology unit and more income from its investment in Union Texas Petroleum, reflecting higher oil and gas prices.

N.V. Tunnel Liefkenshoek

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May 1987

N. AMERICAN QUARTERLIES

N. F. AMERSONSON Savings and loans				AVON PRODUCTS Cosmetics				BELL SOUTH Telecommunications				CONSOLIDATED FREIGHTWAYS Haulage			
Second quarter	1987	1986		Second quarter	1987	1986		Second quarter	1987	1986		Second quarter	1987	1986	
Revenue	—	—	\$	Revenue	886.5m	498m		Revenue	3,025m	2,895m		Revenue	589m	538.5m	
Net income	32.2m	76.5m		Net income	71.5m	40.5m		Net income	362.2m	408.5m		Net income	25m	25.5m	
Net per share	0.53	1.25		Net per share	1.53	0.57		Net per share	0.80	0.57		Net per share	0.51	0.59	
Six months	—	—		Six months	1.2m	1.25m		Six months	5.85m	5.74m		Six months	1.05m	1.05m	
Revenue	—	—		Revenue	882.2m	38.3m		Revenue	584.7m	523.5m		Revenue	1,050m	42.3m	
Net income	114.7m	144.4m		Net income	0.2m	0.01		Net income	1.74	1.78		Net income	37.6m	0.57	
Net per share	1.17	1.25		Net per share	0.02	0.01		Net per share	0.02	0.02		Net per share	0.57	1.10	
ARMCO Steel, steel products				BAURTEXAS Bearing				COCA-COLA ENTERPRISES* Coke bottling				CHICAGO PACIFIC Household appliances			
Second quarter	1987	1986		Second quarter	1987	1986		Second quarter	1987	1986		Second quarter	1987	1986	
Revenue	719.5m	657.7m		Revenue	—	—		Revenue	629.1m	435.2m		Revenue	—	—	
Net income	38.2m	128.7m		Revenue	722.6m	71.8m		Revenue	26.1m	11.2m		Revenue	328m	184.1m	
Net per share	0.46	1.58		Net per share	70.8	10.38		Net per share	0.25	0.10		Op. net income	7.3m	3.3m	
Six months	—	—		Six months	—	—		Six months	—	—		Six months	0.52	0.41	
Revenue	1,450m	1,340m		Revenue	—	—		Revenue	1,370m	785.4m		Revenue	—	—	
Net income	88.7m	147.6m		Revenue	746.6m	71.8m		Revenue	42.5m	13.2m		Revenue	—	—	
Net per share	1.10	1.55		Net per share	71.58	10.38		Revenue	0.30	0.10		Revenue	—	—	
* Loss				* Loss				* Loss				* Loss			

More quarterly results on Page 41

NEW ISSUE

This announcement appears as a matter of record only.

July, 1987



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(Kabushiki Kaisha Okumuraumi)

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U.S. \$60,000,000 Industrias Peñoles, S.A. de C.V. Floating Rate Notes Due 1989

Interest Rate 10% per annum
Interest Period 22nd July 1987
22nd October 1987
Interest Amount per
U.S. \$10,000 Note due
22nd October 1987 U.S. \$255.56

Credit Suisse First Boston Limited
Agent Bank

Eni International Bank Limited ECU 135,000,000

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In accordance with the terms and conditions of the Notes, the rate of interest for the interest period July 22, 1987, to October 22, 1987 has been fixed at 7% per annum. Interest payable on October 22, 1987 will be ECU178.89 per Note of ECU10,000.

Agent
Morgan Guaranty Trust Company of New York
London Branch

INTL. COMPANIES and FINANCE

Airbus problems put MBB in red

BY HAIG SIMONIAN IN MUNICH

A NET LOSS of DM104m (\$55.9m) for 1986 is revealed by Messerschmitt - Boelkow - Blohm (MBB), West Germany's leading aerospace group, following a DM100m profit in 1985, on turnover which fell to DM35.6m from DM61m.

The company is expecting a DM95m loss in the present business year, said Mr Hans Arnt Vogels, MBB's chief executive.

MBB's major problem last year was civil aircraft, where its wholly-owned subsidiary, Deutsche Airbus, is the German partner in the European Airbus consortium. Adverse exchange rate factors meant the group had radically revised the budget for the wide body Airbus A300/A310 programme last year.

As a result, MBB had been unable to meet its forecast that 1986 profits would be roughly maintained, said Mr Vogels.

Moreover, the present exchange rate of around DM1.80 would damage group results in 1987, possibly at a cost of DM 30m to profits.

MBB's results indicate the intensity of the international competition in the aerospace market, and the advantage US manufacturers have now gained thanks to the lower dollar.

Putting a brave face on things, Mr Vogels said the group was not unduly pessimistic in the longer term as exchange rates could change, while other economic fundamentals, such as US inflation or the level of interest rates, could once again tip the economic balance.

Nevertheless, MBB's own results had been reduced by some DM 60m last year as a result of adverse currency factors, apart from the losses at Deutsche Airbus, which it

invoiced in D-Marks. Moreover, there had been difficulties in the helicopter market in 1986, and these would continue to hamper profits this year.

Losses on the Airbus had obliged MBB to seek federal government help. Agreement has now been reached, subject to parliamentary approval, for the state to take over DM1.9bn in accumulated loans and guarantees already granted to Deutsche Airbus to back the existing A300 and A310 airliners.

However, MBB itself is also committed to ploughing DM300m into Deutsche Airbus as part of the deal. Half the funds will be put up this year, with the rest coming in the form of development finance in 1988.

MBB is accordingly likely to need more capital from its

shareholders, though Mr Vogels saw little chance of this being achieved at the moment.

However, he predicted the company would return to profits by the end of 1988, provided no further special financing for Deutsche Airbus was required. He said a capital increase would seem much more likely then.

The much-discussed chances of Daimler-Benz taking an equity stake in MBB look dimmer after its latest results and forecast for 1987, despite the commercial attractions for Daimler of forming a wider aerospace grouping.

For its part, MBB is keen to have Daimler on board. But any eventual arrangement set to depend on a broader package including possible government aid for Dornier, Daimler's aerospace subsidiary,

Two Swiss banks show favourable first-half results

BY WILLIAM DUFFLORCE IN GENEVA

UNION BANK of Switzerland, the country's biggest bank, yesterday announced that it had achieved "favourable" results in the first half of 1987 but did not disclose figures. It forecast "satisfactory" results for the rest of the year.

UBS posted a 12 per cent rise in net earnings to Sfr 776m (\$501m) in 1986. The Swiss bank is currently negotiating the takeover of Hill Sammel, a leading London merchant bank.

A reduction in income from lending and securities business in the first half had been offset by higher earnings from foreign exchange, banknote and precious metal trading and from underwriting operations, the bank reported.

The results were below the record figures notched up in the first six months of 1986 but above those registered in the second half, UBS stated.

Lending had expanded only slowly in volume over the last few months and had suffered a considerable squeeze on margins, the bank said. Some sectors of the securities business had seen a slight, temporary slowdown.

The balance sheet total rose by 3.1 per cent to Sfr 4.7bn to Sfr 156.5bn in the first half. Growth would have been

Sfr 8.2bn, if exchange rate changes had been ignored, UBS estimated.

Capital and declared reserves rose by Sfr 400m to approximately Sfr 9.1bn as a result of the capital stock increase approved by the general meeting in April.

Swiss Volksbank, the fourth largest of the Swiss banks, reported that income had advanced "satisfactorily" in the first half, with second-quarter figures exceeding those for the first. It foresaw a similar development in income during the second half.

Returns from securities and interest-bearing operations had contributed particularly to the better result in the second quarter.

Last year Swiss Volksbank booked net earnings of Sfr 116.3m, up 15 per cent from 1985, and an increase of 12.5 per cent to Sfr 28.9bn on its balance-sheet total. When the results were announced, Mr Walter Kuegg, managing director, warned that the profit increase of recent years should not be taken for granted.

In the first half of this year the balance sheet total climbed by 8.9 per cent to reach Sfr 31.5bn, a faster expansion than that recorded during the corresponding period of 1986.

Paribas acquires stake in Luxembourg broadcaster

BY PAUL BETTS IN PARIS

PARIBAS, the French investment banking group, has acquired for about FFr 500m (\$80.8m) a 13.4 per cent stake in Compagnie Luxembourgeoise de Telediffusion (CLT), the Luxembourg-based broadcasting group. The vendor is Schlumberger, the Franco-American oil services company.

The acquisition increases Paribas' stake in CLT to 24.6 per cent and reflects the recently privatised French banking group's efforts to boost its interests in broadcasting and other audiovisual investments.

Paribas recently became a core shareholder in Havas, the privatised French media and advertising group, with a 4 per cent stake. It is also a shareholder in M6, the new French commercial television channel, and an important shareholder in the French UGC film production and distribution group.

Paribas has now invested more than FFr 1.5bn in broadcasting and other related investments. The bank indicated yes-

terday that this sector is becoming an increasingly important plank in its investment strategy.

Paribas has now become the second largest shareholder in CLT, which owns the RTL broadcasting network and is a leading shareholder in the RTL television chain. The biggest shareholder in the Luxembourg group is Audioton.

Schlumberger has been shedding non-strategic assets in the face of the slump in the oil services business. Earlier this week, Schlumberger reported halved second quarter net earnings.

Paribas has suggested that it might be tempted in the future to shed part of its interest in the Luxembourg group. Havas has said it would be interested in increasing its stake in CLT.

The latest deal over CLT is part of the rapid changes now taking place within France's deregulated broadcasting industry as major French groups jostle for position in this fast developing sector.

Roche confident in spite of lower sales at half-term

BY OUR GENEVA CORRESPONDENT

ROCHE, Switzerland's third largest chemicals manufacturer, yesterday forecast a "good group result" for 1987, although sales in terms of Swiss francs fell by 6 per cent during the first half.

Turnover reached Sfr 8.5bn (\$2.45bn) against just over Sfr 8bn in the first six months of 1986, but Roche estimates that this valued an increase of 13 per cent in local currencies. During the period the average Swiss franc appreciation against the dollar was 18 per cent.

The increase in sales volume is expected to continue in the second half, Roche believes, the impact of currency fluctuation

should also lessen.

Last year the group showed a net profit of Sfr 16m, down by 7.9 per cent on a Sfr 7.8bn turnover. Mr Fritz Gerber, the company chairman, said last month the 1987 results should equal those reached in 1986 and "earning power" should be improved further.

ALLIANCE + LEICESTER

Alliance & Leicester Building Society

£300,000,000
Floating Rate Notes 1994

Notice is hereby given that the Notes will bear interest at 9.35% per annum for the interest period 21st July, 1987 to 21st October, 1987.

Interest payable on the relevant next payment date, 21st October, 1987 will amount to £117.58 per £5,000 Note and £2,351.67 per £100,000 Note.

Agent Bank:
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Wells Fargo & Company

U.S. \$200,000,000

Floating Rate
Subordinated Notes
due 2000

In accordance with the provisions of the Notes, notice is hereby given that for the interest period 22nd July, 1987 to 22nd October, 1987 the Notes will carry an interest rate of 6 3/4% per annum.

Interest payable on the relevant interest payment date 24th August, 1987 will amount to US\$5.02 per US\$10,000 Note and US\$315.10 per US\$50,000 Note.

Agent Bank:
Morgan Guaranty Trust
Company of New York
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(Incorporated in England under the Companies Act 1946 to 1980)

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Subordinated Floating Rate Notes 2000

Holders of Floating Rate Notes of the above issue are hereby notified that for the interest period from 21st July, 1987 to 21st October, 1987 the following information will apply:

1. Rate of Interest: 9 3/4% per annum
2. Interest Amount payable on Interest Payment Date:
£118.15
Per £5,000 nominal or
£1,181.51
Per £50,000 nominal
3. Interest Payment Date: 21st October, 1987

Agent Bank:
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All of these Securities having been sold, this announcement appears as a matter of record only.

June, 1987

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July 1, 1987

INTERNATIONAL COMPANIES and FINANCE

NZ turns down offers for steel group stake

By Daf Hayward in Wellington

THE New Zealand Government has refused the only two offers received for its 50 per cent shareholding in New Zealand Steel because the bids were too low.

More than a dozen prospective customers were approached but only two made a firm offer. Mr David Caygill, the Minister of Trade and Industry, said the bids did not give the government an adequate return on the capital it has invested in the company. Both bids were from New Zealand groups, which also wanted strong guarantees.

Since 1984, the government has put NZ\$2.18bn (US\$1.32bn) into restructuring the company's debt. The expansion of the Glenbrook steel mill, one of the "think big" projects approved by the previous government of Sir Robert Muldoon, was later described by the head of the Treasury as "a hell of a mistake". Mr Caygill would not reveal the size of the bids but said the government wanted to recover as much as it could of the NZ\$2bn poured into the steel mill's expansion, although it accepted that the price for its shareholding would be "substantially smaller". It will continue to seek a suitable buyer.

Curb on loans to property speculators in Japan

By YOKO SHIBATA IN TOKYO

THE FEDERATION of Bankers' Associations of Japan and the Life Insurance Association of Japan confirmed yesterday that member banks and life insurance companies will not extend loans for speculative property transactions.

The two organisations have instructed member companies to strictly abide by the policy. Their moves followed a similar decision on Monday by the Trust Banking Association of Japan, which urged trust banks to refrain from making loans to real estate speculators.

The move has come at a time

when banks and other financial institutions, faced with shrinking loan demand from corporate borrowers, have expanded their lending to property dealers, accelerating the spiral of rising land prices — especially in the heart of Tokyo.

The Ministry of Finance started direct hearings this week dealing with the banks, at which financial institutions have come under severe criticism.

To add fuel to this debate, a senior executive of Chuo Trust and Banking has been found to have concealed a huge amount of income resulting from specu-

lative land transactions, said to have been partly financed by the bank.

The chairman of the Federation of Bankers' Associations said that banks had tried to keep strictly within the instructions of the MoF and the Bank of Japan in extending loans to property developers. However, the federation has now decided to drive home the necessity of such measures to all member banks.

If suspicious or inappropriate loans are identified, banks will take measures that may include calling in the loans.

Manville to emerge from Chapter 11

By Our Financial Staff

MANVILLE, the US building products group, has announced a sharp rise in second-quarter earnings and said it would emerge from Chapter 11 of the US Bankruptcy Code in the first half of 1988.

Manville filed for reorganisation under Chapter 11 in August 1982, weighed down by some 20,000 asbestos-related lawsuits. In December last year a US bankruptcy judge approved a reorganisation plan calling for the establishment of a \$2.5bn trust fund to pay asbestos victims.

This week the company said it had accumulated sufficient cash to meet the initial obligations of the plan.

Second-quarter net earnings rose from \$28.4m or 52 cents a share to a record \$41.1m or \$1.45 on sales of \$517.5m, against \$480.7m. This took the six-month total to \$24m or \$2.98 a share from \$48m or \$1.39 on sales of \$992.9m, against \$925.9m.

Manville attributed its performance to strong volume in its glass-fibre segment, where sales increased by more than 8 per cent over 1986.

The company also cited favourable conditions in its paper and wood businesses,

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22nd July, 1987

Broad restructuring for QAF

By ROGER MATTHEWS IN SINGAPORE

QAF, the widely diversified group in which the Brunei royal family has the majority interest, has brought in Mr John Richardson, former chief executive of Hutchison Whampoa, to carry out a wide-ranging restructuring.

The appointment of Mr Richardson to the board as deputy chairman, and as chairman of a newly-formed executive committee, coincided with the publication of the group's annual results, which revealed a substantial fall in profits, and a rights issue which raised \$844m (US\$520.7m).

Established in 1964, QAF quickly gained a listing on the Singapore and Kuala Lumpur stock exchanges through a reverse takeover before setting out on a rapid series of acquisitions.

Its interests now range from

food manufacture and retailing through newspaper publishing to offshore oil servicing and the design of naval vessels.

Mr Richardson said yesterday that his task would be to redefine the group's strategy and to refocus on the core elements.

"QAF has moved very quickly in a very short time. What we need now is to pause for breath and to consolidate." He expects to spend a considerable amount of time in Singapore during the next six months, during which one of his most critical tasks would be to find a new chief executive for the group.

Mr Richardson added that he remained on friendly terms with Mr Ahmad Iqbal Sadique, the former managing director who has resigned from the board. Mr Sadique will retain his 17.5 per cent shareholding.

QAF yesterday announced a 63 per cent fall in pre-tax profits to \$52.7m on group turnover up 35 per cent to \$2200m. The decision to cease operations in a joint venture drilling company has led to a write-down of \$612.3m, of which QAF's attributable share of \$36.2m had been taken at the extraordinary level. An additional extraordinary provision had been made for the non-recovery of the company's share of profits in another oil and gas joint venture.

The \$844m proceeds from the rights issue are to be used entirely to reduce the group's borrowings. Mr Richardson, who believes that interest rates will start to climb later in the year, said that it was vital to reduce the group's gearing as it was currently highly vulnerable to interest rate movements.

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INTERNATIONAL CAPITAL MARKETS and COMPANIES

French banks plunge into broking

BY GEORGE GRAHAM IN PARIS

FRANCE'S LEADING banks have wasted no time before deciding to plunge into the closed world of the Paris stockbrokers.

Even before the law that will reform the French stock exchanges has been passed, Banque Nationale de Paris and Societe Generale, two out of France's "big three," have each announced their plans to take control of a Paris brokerage.

Credit Lyonnais, the third of the big three, will soon follow its rivals, while such other French banks as Credit Commercial de France and Indosuez are also expected to take the plunge and buy into the capital of a brokerage house.

For the big French banking groups, the decision was hardly avoidable.

The reform of the stock exchanges planned by Mr. Edouard Balladur, the Finance Minister, is a gradual one, and the closed shop of the present 103 agents de change, with exclusive rights to deal in French domestic shares, will not end until 1992.

Banks which want a full role in the French stock market within the next five years thus have little choice but to buy into a brokerage as their entry ticket to the bourse.

The decision is, nevertheless, one that many bankers will take reluctantly.

"A brokerage firm is three things: the monopoly, the dealing teams and the client list. In 1982, the monopoly is worth nothing, the dealing teams are highly mobile and the only thing that is worth anything is the clients, especially the private clients," said one BNP executive—before the bank finally decided to buy itself a stockbroker.

This reasoning appears to be confirmed by BNP's choice of broker, du Bouzet, in which it plans to take 83.5 per cent, and by Societe Generale's selection of Delahaye Ripault, in which



Mr. Edouard Balladur plans gradual reform

it plans to take a stake of between 67 and 75 per cent.

Rankings of French stockbrokers by size are hard to arrive at, but it is safe to say that neither du Bouzet nor Delahaye features on anyone's top 15. Du Bouzet, indeed, is reckoned to be one of the smallest brokers.

Clearly, both BNP and Societe Generale were willing to pay the price for one of the more substantial of the 61 charges into which the agents de change are grouped.

The contrast with London's Big Bang is clear. There, the big banks were keen to buy one of the best established brokers—even if some discovered after-

wards that golden handcuffs were not enough to tie the down these brokers' main assets, their dealers and analysts.

It is also notable that BNP and Societe Generale have limited themselves to majority control, whereas almost all the London bank-broker marriages ended up in a 100 per cent sell-out.

For many foreign securities houses, the logic of buying into a charge is not so inescapable as for their French competitors.

A number of British and American groups, such as Hoare Govett and Rowak, have been looking at the possibility of taking a stake in a French broker. Many have gulped in astonishment at the prices being asked by firms whose dealing and research strengths are sadly underdeveloped by international standards.

Many French brokers have been talking of a price 10 to 15 times their prospective 1987 earnings. This may be modest in comparison with the earnings multiples discussed a few months ago, but for firms whose income doubled last year and is expected to double again this year the margin of error is wide.

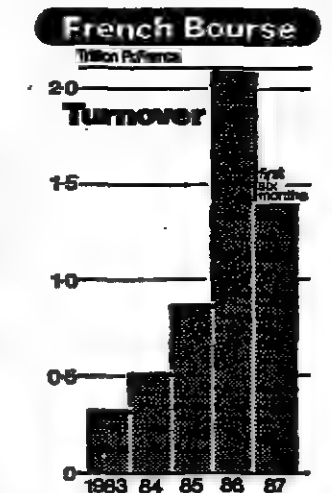
"You do not pay 15 times earnings to have a partner sitting in Grasse," said Mr. Gerard de Geor, of Enskilda Securities, which has decided to set up its own securities dealing operation in Paris rather than buy an existing broker.

To a great extent foreign securities houses can continue to take part in the French market without paying for a broker.

Dealing in French equities will continue to take place in London, which now accounts for an estimated 15 per cent of

total French turnover and as much as 50 per cent in some stocks. Block trading, especially, is concentrated in London.

Nor will the Balladur reform



Bill, which concentrates on the organisation of the stock exchange, on the control of conflicts of interest and insider dealing, change the market's organisation, reduce commission costs or help to bring block trading back to Paris since it envisages the continuation of the current, fully centralised market.

The way has already been pointed in the French government bonds market, where the leading French and American banks have almost completely sidestepped the bourse, even if transactions are in the end put through stockbrokers at water-tight commissions.

On the equity side, however, French banks are choosing to buy their entry ticket.

MoF plans first auction of 20-year state bonds

By Yoko Shimizu in Tokyo

THE JAPANESE Ministry of Finance will issue 20-year government bonds under the auction system for the first time at the end of this month or early next month.

The MoF is expected to offer ¥500bn-700bn of the long-term government bonds and nearly 400 companies are expected to submit bids, centering on the existing members of the syndicate that has underwritten previous 20-year government bond issues.

At present, only short- and medium-term government bonds are offered on an auction basis. Longer-term government bonds are underwritten by a syndicate of banks and securities houses to facilitate smooth digestion of the issues.

As a result, public offerings at auction accounted for only 34 per cent of total government bond issues at the beginning of this fiscal year. However, US brokerage houses have been lobbying strongly for wider access to the Japanese government bond market on reciprocity grounds. The auction system is customary for US Treasury

This has prompted the MoF to adopt the system for all its 20-year government bond issues and 20 per cent of its 10-year government bonds, which constitute the core of funding. As a result, 56 per cent of government bond issues will be auctioned in the current fiscal year.

The ministry is considering increasing the portion of 10-year government bond issues at auction to 18 per cent from 10 per cent in the years ahead.

Foreign brokerage houses, which have been seeking an expansion in their quotes of government bond issues, may bid in large numbers at the auctions.

The MoF is reviewing the qualifications of financial institutions as government bond bidders, and could revoke the licenses of those inactive at the auctions.

MoF officials say this review is under way ahead of the first auction of 20-year government bonds, expected at the end of this month or early next month, to ensure the effectiveness of competitive bidding.

Aside from the 20-year government bonds, six-month discount bonds and medium-term bonds with maturities of two, three and four years will be offered for auction.

The MoF awards separate licenses to bid for each of the three categories of government bonds on application from brokerage houses and banks—on condition that they are members of the syndicate of underwriters for 10-year bonds and eligible to deal in outstanding public bonds.

Bankers Trust leads gilt warrants offer

By Janet Bush

BANKERS TRUST International is leading a group of international banks in offering warrants to buy £100m of gilt-edged Treasury stock due 1993. The warrants are exercisable up to August 4 1988.

In each case, a US-owned house has teamed up with a British participant in the gilt market to accord with Bank of England lead management rules. The amounts involved have been £100m in each case—the limit allowed by the Bank in the initial stages of the market—and all the maturities have been roughly within the limit of one year set by the Bank.

Bankers Trust is issuing 1,000 call warrants, each exercisable into £100,000 nominal of the 18 per cent Treasury stock due 1993. The warrants are exercisable up to August 4 1988.

Bankers Trust said the indicated initial offer price would be 99.50 and the exercise price would be two points above the cash price of the underlying gilt at issue. The issue is guaranteed by Bankers Trust New York.

The Bankers Trust launch follows two issues yesterday, the first by Chase Manhattan with Union Discount, the discount house and agency broker in gilts, and the second by Goldman Sachs with N. M. Rothschild as co-lead.

The Goldman Sachs issue consisted of 1,000 call warrants, each exercisable into £100,000 nominal of the 12 1/2 per cent Treasury stock due 2003-05 at an issue price of 228 1/2 per cent and an exercise price of 130 3/4 pence.

Australian dollar issues again take centre stage

BY OUR EUROMARKETS STAFF

AUSTRALIAN dollar issues again took centre stage in the Eurobond market yesterday. US dollar bonds were overshadowed by the testimony being delivered in Washington by the current and designate chairmen of the Federal Reserve Board, Mr. Paul Volcker and Mr. Alan Greenspan.

Most market participants agree that the Australian sector is becoming overfunded with new paper, and that new issues are likely to move slowly.

Oesterreichische Kontrollbank made a \$575m seven-year issue led by Orion Royal Bank, with the guarantee of Austria. With a coupon of 13 1/2 per cent and a price of 101 1/2, the issue was bid late in the day at 2 points below issue price, a discount equal to the total fees.

CMAC Australia Finance raised \$400m with a two-year issue lead on the heels of its \$250m deal of the previous day. Led by County NatWest Capital Markets, the issue carries a coupon of 13 1/2 per cent and 101 1/2 pricing.

Dairy Farm International, the Hong Kong-based food retailer and manufacturer, yesterday

issued \$200m worth of convertible cumulative preference shares which will be used to fund its recent \$147m acquisition of a 25 per cent stake in Kwik Save, the UK discount food retailer.

Jardine Matheson, which still holds a 50 per cent stake in Dairy Farm, has taken up \$50m worth of the offering.

The \$200,000 preference shares bear a dividend of 6 1/2 per cent and are convertible into Dairy Farm shares at price of K\$380, a premium of 15 per cent over yesterday's close.

Credit Suisse First Boston led the offering which was increased from \$180m and traded around 101 1/2. The fees totalled 4 per cent.

The West German market saw the first convertible Japanese share issue since January 1985, also carrying a record low expected coupon. The issuer was Canine Textile with 130 million shares for just under 10 years, priced at par with a 10 1/2 per cent coupon.

Landesbank was lead manager, and the bond, which carries a put option in 1992 at 107 1/2, traded at 99 1/2, a point within its total fees.

D-Mark bond prices fell by 80 to 90 basis points in fairly active trading in the absence of retail demand. There was some unease in the market ahead of the Bundesbank repurchase agreement expected today.

In Switzerland, Aol, a Japanese construction company, made a Sfr 100m five-year convertible issue with an indicated coupon of 4, priced at par and led by Swiss Volksbank.

Long-Term Credit Bank of Japan's Sfr 100m issue had its coupon cut to 4 from 5 per cent. Swiss franc bonds were up to 1 point higher in short maturities; more active business was concentrated around equity-linked issues for European borrowers. TNY's Sfr 100m issue closed its trading at 100 1/2, half a point below its issue price.

Eurolink bond was increased from L50m to L60m. Terms of Tokyo-Mitsubishi's two equity-linked issues were fixed as indicated, with the \$100m issue quoted at 7 points below issue price.

Warner earnings boosted by record and cable sides

BY JAMES BUCHAN IN NEW YORK

DOUBLED second quarter net income has been shown by Warner Communications, the US entertainment group which is at loggerheads with its main stockholder.

Earnings for the three months to end-June amounted to \$104.3m or 66 cents a share, up from \$51.6m or 37 cents a share with the help of a 19 per cent increase in sales revenues to \$944.3m from \$844.3m.

Warner, whose stock has risen strongly this year in the face of solid growth in the company's record and cable businesses, closed at \$85 1/4, up \$4 1/4 on the results.

The latest figures include a tax credit of \$10.8m or 7 cents a share, but operational net income was still more than 80 per cent ahead at \$83.5m or 61 cents a share.

Improving prices lift Alcan in first half

By Robert Gibbons in Montreal

IMPROVING PRICES for ingot and fabricated products helped Alcan Aluminium, the largest primary aluminium producer in the world, post stronger revenues and profits—barely—before the bank finally decided to buy itself a stockbroker.

Net profits of the Montreal-based group amounted to US\$95m in the second quarter, making a total of \$187m for the first half.

In the second quarter of 1986, net earnings amounted to \$106m while first-half profits totalled \$188m, but the figures for both periods included special gains of \$42m and \$74m respectively.

S&P and Moody's debt ratings for Abbey

BY CLARE PEARSON

THE Abbey National yesterday became the first UK building society to obtain debt ratings from Standard & Poor's and Moody's, the US rating agencies.

The ratings constitute an important step forward for the funding plans of the society—Britain's second largest—in the international capital markets.

For long-term debt, the Abbey National obtained ratings of A-1 from Moody's and A-

minus from Standard & Poor's, which combined give a net AA rating. For short-term wholesale deposits, Moody's has assigned a Prime 1 rating while Standard & Poor's has given a provisional A1+ rating for the society's recent \$1bn Euro certificate of deposit programme.

Mr. Peter Birch, the Abbey's chief executive, said that the ratings would "enable us to gain wider and more competitive access to foreign capital markets."

They could open up to the society such areas as the US commercial paper market and the European bond market—both of which UK building societies have so far been debarred since a credit rating is a formal requirement for issuers.

Moody's said of the ratings: "Abbey National will face challenges as it diversifies away from traditional activities

in a changing environment of continuing deregulation. However, the society has already shown its ability to maintain profitability and control costs during a period of substantial changes in the British building society industry."

The societies have so far tapped the sterling Eurobond market extensively and this year the Abbey National, the Halifax and the Woolwich have issued dollar Eurobonds.

On the equity side, however, French banks are choosing to buy their entry ticket.

MoF officials say this review is under way ahead of the first auction of 20-year government bonds, expected at the end of this month or early next month, to ensure the effectiveness of competitive bidding.

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June 1987

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Closing prices on July 21

US DOLLAR		Yield	Price	Change	Yield	Price	Change	Yield	Price	Change
STRAIGHT										
Bank of America 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
Bank of America 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
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US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
US Commercial 7 1/2	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00	101.00	+0.05	10.00
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Average price change on day -0.04 on week -0.04

Yield

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UK COMPANY NEWS

Clay Harris on the agreed merger between FKI Electrical and Babcock

Bringing in new thinking for a new future

FOR Babcock International, it has come to this: taken over by a company which, five years ago, was making parking meters.

If FKI Electrical illustrates one face of British industry in the 1980s, the opportunistic building of a profitable group by picking up loss-making companies here and there and turning them around, Babcock symbolises another: diversification of activity—but not necessarily of management attitudes—out of a traditional sector beset in decade-long doldrums.

The agreed takeover by FKI has come just as Babcock began to glimpse that its expensive preparation for the end of a long drought in UK power station orders would show returns within a few years.

The patient nurturing of factory automation and transatlantic moves into motor components and hardware, were beginning to pay off.

Things were coming right at Babcock, but not quickly enough. Pre-tax profits were forecast to grow by 10 per cent this year, at best, with a similar advance foreseen for earnings per share.

Even within Babcock, there was also a sense of drift as speculation mounted over possible takeover bids or disposals of parts of the business.

Lord King, Babcock chairman for 15 years, said yesterday: "We need to see a new road and a new future. We need to bring in some new thinking, and they've got it."

Mr Tony Gartland, FKI chairman, who will become chief executive of the combined FKI Babcock, struck the same note. "A little bit of lateral thinking goes a long way."

For the second time in six days, Lord King was employing his rhetorical skills to argue that what appeared to be a takeover was actually a merger.

If the proposition had appeared incredible in the case of British Airways and British Caledonian, it was merely questionable in the latest marriage in which Lord King found himself on the other side of the aisle.

He will be chairman of FKI

Babcock, continuing a 16-year association with the company which began, ironically, when he was brought in to sort out its financial troubles.

The link with FKI follows a whirlwind romance which began only a few weeks ago. Sir Frank Cooper, former permanent secretary at the Ministry of Defence, had been acting as a matchmaker for several months in his role as director—both of Babcock and of N. M. Rothschild—FKI's longtime merchant bank and Babcock's financial adviser since earlier this year.

Lord King's first request to Rothschild was for it to consider new directions for Babcock. The deal with FKI was, perhaps, clinched when Lord King, an adopted Yorkshireman who began his business career by building up Ferrybridge-based Bearings Group, immediately hit it off with Mr Gartland, whose FKI is still based at Sowerby Bridge.

Mr Gartland has run FKI since 1972, when he led a management buy-out of Fisher-Karpark, a parking-meter manufacturer, from Boston Fishing Group. Profits have increased without a hiccup every year since then.

In 1982, Fisher-Karpark reversed into Woodend Securities, a moribund tea plantation group lying fallow on the USM. At the time, lighting controls was its only other business.

It moved to a full listing within a year, having already begun a string of engineering and electrical acquisitions.

Among the significant additions were engine diagnostic and vehicle-lifting activities from TI Group, electrical and engineering operations from Thorn EMI and the Laurence Scott boiler and railway components unit from MS International.

The link is barely dry on its latest acquisition, the £36m rescue of Stone International, a troubled systems engineer. Stone alone more than doubled FKI's annual turnover.

Babcock will multiply the new total by more than six times.



Tony Gartland (left), FKI chairman who will become chief executive of the new combined company, and Lord King, the Babcock chairman.

Mr Gartland emphasised yesterday that Babcock marked a new departure for his company. "This is not a typical FKI deal where, frankly, we buy loss-making companies."

Nevertheless, FKI earnings have shown a 96 per cent compound annual rise since coming to market. Mr Gartland stressed yesterday that the Babcock acquisition would not be dilutive, but said: "We've never purported to the market that we could double earnings per share every year to infinity."

FKI will focus immediately on Babcock overheads. Mr Gartland and his colleagues had already gone through Babcock's management accounts.

"The margins are at the gross margin level," he said. "There's no reason that they shouldn't be viable on a net margin level."

He and Lord King were at pains to emphasise that plans to rationalise did not necessarily mean disposals. "Disposals are a facet of what we will explore," Mr Gartland said.

Lord King, however, gave mining equipment as one activity that would face scrutiny. "Anybody involved in

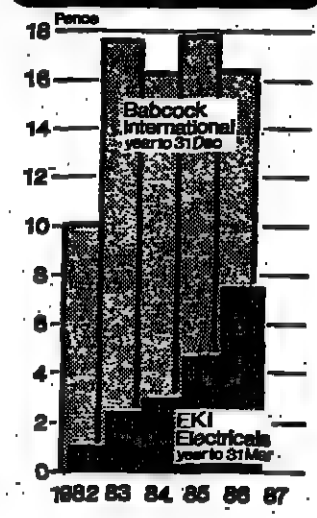
TURNOVER AND OPERATING PROFIT BY DIVISION

	Turnover (£m)	Op. profit (£m)
Energy	267.7	4.18
Contracting	84.9	3.96
Ind./elec. prod.	89.4	1.67
North America	49.2	1.01
Overseas	170.1	0.94
FATA European	149.4	4.39
Total	1,217.6	37.94

	Turnover (£m)	Op. profit (£m)
FKI Electrical	17.6	1.25
Electronics	23.0	4.37
Transport equip.	15.4	2.05
Comm./comp.	11.4	2.09
Engineering	16.1	1.92
Motors and control gear	83.5	10.98
Stone	100.4	6.70

* 1986. † After central costs.
‡ Year to 31-5-87. § Year to 31-5-86.

Earnings per Share



Kingsgrange placing values company at £20m

By Philip Cogan

Kingsgrange, the toiletries manufacturer which produces the Potter & Moore range, is joining the main market via a placing valued at £20m.

The company was formed in 1982 by Mr Ian Aldred, formerly deputy managing director of Sedstream.

Shortly afterwards, it acquired Jean Sorelle, which owned the Potter & Moore brand name. Around 30 per cent of its sales are now in the form of branded products like Potter & Moore, with the rest being own label sales to retailers such as Marks and Spencers, which accounts for 55 per cent of group turnover.

In the year to April 30, 1987, Kingsgrange made pre-tax profits of £1.1m on turnover of £12.5m, up from £948,000 on £11.04m in the previous year. Earnings per share were 7.78p (7.05p).

Schroders is placing 1.34m shares, 22.6 per cent of the enlarged equity, at 140p each. Most of the shares being sold are new and part of the proceeds will be used to pay off existing redeemable preference shares. The shares are on an actual tax historic p/e of 18 at the placing price. The tax rate last year was 21 per cent and is likely to increase to 30 per cent this year.

Dealings are expected to start on Monday.

Etam raises £34m to cut borrowings

By Nikki Tait

IN ONE of the tightest fund-raising deals done to date, fashion retailer Etam yesterday raised £34.7m through a placing of 10.58m shares, existing shareholders are being offered a discount on the new shares.

The money will be used to repay borrowings resulting from recent acquisitions and to finance store refits and refurbishments.

However, Etam denied that a major acquisition was on the immediate horizon.

"We are keeping our eyes open, but there is nothing imminent," Mr Miles Drake, finance director, said yesterday.

The placing was completed yesterday morning at 130p a share. That represented a 4.9 per cent discount to Monday's closing price—much narrower

than the company might expect on traditional rights issues—and, according to advisers County Bank, one of the tightest deals to date.

The actual placing of the shares was not helped by the sharp fall in the market overnight yesterday morning, with Etam's price at one stage slipping to 122p. However, with the exercise completed by lunchtime, the shares recovered to 137p by the close.

Etam said that it had chosen the placing route because of the relative cost. In addition to the narrower discount, the deal will be completed more quickly. Moreover, directors, their families and trustees of Etam employees—who own about 30 per cent of the equity,

—have decided not to clawback and the underwriting commission on these 2.15m shares has been pushed to 1 per cent.

The company added that the security of its share register—given that the directors' unpaid rights could have been available and that the new shares represent one-fifth of the existing equity—had also featured in its thinking. Existing shareholders will be able to clawback on a one-for-five basis, also at the placing price.

The money will be used first to pay off £7.8m of debt which resulted from the purchases of the Snob chain of teenage fashion shops and the Peter Brown menswear shops, both of which had been trading in the red.

After that, Etam plans to experiment with combining two of its names—Etam/Peter Brown, Snob/Peter Brown, and Snob/Tammy Girl—on the same site, and to move all four types of outlet on one site in Sheffield. Beyond that, Etam envisages an extensive opening programme; "on the horizon, we see a chain of at least 50 Snob outlets and 100 Peter Browns," said Mr Drake. There are currently 14 and 26 respectively.

Etam added yesterday that it was pleased with current trading—saying that sales are well ahead of last year at this stage, and "comfortably exceed budget."

Joseph Webb profits rise by 73% to £0.53m

Joseph Webb lifted pre-tax profits by 73 per cent from £303,768 to £526,249 on turnover ahead from £5.94m to £6.8m in the year to March 31, 1987.

The directors proposed a final dividend of 0.4687p, making a total for the year of 0.6p. Last year, Webb paid a final of 0.3797p to make a total of 0.511p. Earnings per share rose from 0.8p to 1.3p.

Webb has interests in estate development, property investment and holidays and leisure. The directors said that holiday interests in the UK made an increased contribution of £295,965 (£573,530) to the year's

operating profits of £1.04m (£821,439). The recovery of amounts previously written off produced an apparent contribution of £55,250 from France.

Demand from Webb's new venture of caravan sales to private owners had continued to increase steadily.

Net rental income increased to £276,621 (£250,809) and has maintained steady progress. Satisfactory results were achieved in agreeing rent reviews and lease renewals. Land sales made a contribution of £115,272.

Tax charges rose from £92,458 to £168,286. Preference shares took an unchanged £13,125.

Record £0.58m profit for Creighton Labs

Creighton Laboratories, USM-quoted manufacturer of "Natural Beauty" products, has produced a 21 per cent increase from £479,000 to a record £580,000 in pre-tax profits for the year to March 31, 1987.

Mr Richard Collard, chairman, said that the first year on the USM—the company came to the market last September—had heightened Creighton's profile with customers, as well as providing an excellent capital base for the company's development.

He said that the negotiations to commence manufacturing for two more household names had been successfully concluded. The company was becoming ever

stronger in the export field with continuing success in the US.

The current year had started on a sound footing with a full order book. Further premises had been acquired in Storrington, and a substantial investment had been made in new equipment to meet increased demand for the company's products. Mr Collard looked forward to the next year with great optimism.

Creighton's earnings rose 25 per cent to £4.19m (£3.35m); tax took £208,000 (£204,000) leaving attributable profits of £372,000 (£275,000) for earnings of 10.5p (8.2p) per 20p share. There was an extraordinary item of £8,000 (nil).

The dividend will be a total of 3.7p with a proposed final payment of 2.5p.

Barbour Index beats forecast

Barbour Index, provider of information services to the construction and health and safety markets, returned pre-tax profits of £1.7m on turnover of £4.62m in the year to April 30, 1987.

When the company obtained a full listing in February this year it forecast profits of not less than £1.6m. In its last full year of operations, which ended on October 31, 1986, Barbour recorded profits of £1.15m on turnover of £3.84m.

The proposed dividend of 2.5p is as forecast and earnings per share amounted to 12.8p.

Mr Patrick Barbour, chairman, said that the growth of the company had been achieved by high customer renewal rates, the expansion of existing services and the launch of new ones. It was the company's policy to expand organically and through acquisition in existing and related fields. He was confident that this year's results would again show satisfactory financial progress.

Tax charges amounted to £638,000 and minority interests accounted for £102,000.

In the six months to April 30, 1986 Barbour made £370,000 before tax on turnover of £1.14m. Earnings were 4.2p.

Standard Chartered reviews SA position

By David Latchford, Banking Editor

STANDARD CHARTERED BANK, the UK-based international bank, said yesterday that it is reviewing its 39 per cent interest in Stanbic, its South African subsidiary.

The statement marks a shift in the bank's policy, last by Mr Michael McWilliam, the chief executive at the annual meeting in May, that Standard Chartered had no intention of reducing its interest in South Africa.

"Unless a further restructuring of the investment is decided upon, no public comment will be made," the bank said. It would not say whether a buyer has been identified. Hill Samuel acts as Standard's merchant bank in South Africa.

Standard Chartered has been steadily reducing its stake from over 50 per cent over the last two years by not participating in rights issues by Stanbic. The major local shareholder is Liberty Life which also has first option to buy more shares from Standard Chartered.

The bank's strong South African connection, while politically controversial, had been a deterrent to a renewed take-over attempt by Lloyds Bank. However, the need to make substantial provisions against Third World debts has put pressure on some of the bank's resources, and appears to be one of the factors behind the review of its South African interests.

Mr Donald Gordon, chairman of Liberty Life, who is visiting London, said yesterday that he had not received any formal approach from Standard Chartered, and had no plans to see the company during his two-week stay which ends on Thursday.

He said Liberty Life might be interested in increasing its stake in Stanbic in order to protect the relationship with Standard Chartered and the shares out of unfriendly hands.

But he pointed out that under South African regulations, his company could not increase its stake beyond 30 per cent without special dispensation. He also said there was a limit to how large a stake Liberty Life would want in Stanbic.

"When they are ready to talk, we will talk," he said.

Delta fails again

Delta, the Midlands-based electrical and engineering group, yesterday issued its offer document for George H. Scholes, the electrical engineering group, and was once more rejected.

Scholes says the £70m offer still fails to reflect its performance and without special dispensation. He also said there was a limit to how large a stake Liberty Life would want in Stanbic.

"When they are ready to talk, we will talk," he said.

Wood in talks

Shares in Arthur Wood & Son (Longport), the earthenware manufacturer, which two months ago were trading at under 100p, were suspended yesterday at 283p, valuing the company at £5.6m.

The company says it has received an approach which could lead to a change of ownership and that negotiations are continuing.

Waterglade profits in line with placing forecasts

Waterglade International, the property company which came to the market last April, yesterday disclosed annual pre-tax profits in line with the forecasts at the time of the placing.

Pro-forma results for the year to end-March were £3.1m, compared with £1.19m for 1985-86. The pro-forma accounts have been drawn up to include a £1.9m contribution from Waterglade (Havant). This sum was earned before December 1986 when the remaining 75 per cent of its equity was acquired by Waterglade International.

The shares responded by firming 5p to 265p before settling back to 261p for a gain on the day of 1p.

Mr Ronald Nathan, the joint managing director, confirmed that Waterglade will declare its

Tozer raises bid for Molins to a final £94.8m

By Terry Povey

Tozer Kemble & Millbourn yesterday sharply increased and made final its hostile bid for engineering company Molins, raising the value of the offer to £94.8m.

Responding, the target company rejected the improved offer, stating that the "new bid fails to take account of Molins excellent prospects and still has no industrial or commercial justification."

TKM, which is a subsidiary of the New Zealand-based Brierley group of companies, also announced that acceptances at the July 20 first closing date totalled 7,077m shares, 24.1 per cent of Molins issued ordinary capital. Of this total 7,05m was tendered by IEP, also a member of the Brierley group.

Describing the non-Brierley connected acceptances levelled at Tozer, TKM commented that this "indicates that TKM's offer was unacceptable" to its shareholders.

The increased offer is: seven TKM shares plus 230p in exchange for every four Molins shares or 300p cash. On the stock market yesterday heavy trading, more than 1.8m out of

Molins 29.4m ordinary shares changed hands, pushed the target company's share price up 18p to close at 308p while TKM's price dropped 2p to 140p.

The shares plus cash offer values each Molins share at 302.5p and the cash alternative is underwritten by the Brierley group.

By declaring that it would not increase its offer beyond this level, "TKM hopes to force the issue to a conclusion," said Mr Reg Heath, its chief executive, yesterday. The next closure date is August 11 with the ultimate deadline being August 23.

Until it gets shareholders' approval at an extraordinary meeting on Thursday, TKM is only able to increase its stake in Molins to 30 per cent.

● Molins yesterday announced that it had won a £2.7m (£1.7m) order to supply the first heavy duty corrugated board production line to China and reached agreement for a joint-venture company to undertake the modernisation of a China's corrugated board production. A further £8m Chinese order for cigarette making machinery was also reported.

Small investors may miss out on BAA tender offer

By Richard Tomkins

A CUT-OFF price of about 280p is expected to be announced today for the tender offer of shares in BAA, formerly the British Airports Authority.

This price is the figure above which all bidders in the tender offer will receive shares. Bidders at the cut-off price will face a degree of scaling down so that applications match the remaining shares available.

A figure of 280p compares with a price of 245p for the shares in the fixed price offer. It is considerably higher than the top bid of 270p which many stockbroker analysts had recommended to their clients, and will probably exclude most small investors from the allocation.

The likelihood that institutional investors will be left short of stock increases the probability of a strong first-day premium for holders of the fixed-price shares. Cleveland Securities, the licensed dealer, was quoting 147p bid, 152p offered yesterday for the 100p partly-paid shares.

The Government announced the results of the fixed price offer at the weekend and also said the tender offer had been "substantially subscribed." The decision on the cut-off price has been delayed by the need to achieve a precise count of the bids and clear cheques.

Boesky trusts sell 18% of Cambrian and General

By Nikki Tait

AN 18 per cent interest in the capital shares of Cambrian and General, the UK investment trust run by disgraced New York arbitrageur, Mr Ivan Boesky, was sold by the Boesky family trusts. It involves 2.8m shares.

The trusts have also parted with 300,000 ordinary shares—less than 1 per cent of that class of equity—and now have no on-going interest in Cambrian and General.

Speculation immediately centred on the purchaser(s) of the stake. The favourite candidate is Heine Securities, a New York-based mutual fund group which specialises in undervalued asset situations.

Yesterday, Mr Michael Price, chief operating officer of Heine, refused to comment, but pointed out that any additional shares purchased by Heine itself would have to be disclosed. It already holds about 9 per cent of the ordinary shares and 2 per cent of the capital.

However, Heine is also rumoured to be among the interested purchasers of the

US Government's stake in Cambrian and General—shares which Mr Boesky handed over to settle charges of insider trading with the US Securities and Exchange Commission in November.

The stake involved here represents Mr Boesky's personal assets—rather than his family's interests—and consists of about 55 per cent of Cambrian's capital shares and 13 per cent of the more numerous and less valuable ordinary.

In early July, it emerged that the US Government had only received payment of £37m for its Cambrian stake, compared with the £50m it hoped to receive. Since then, the authorities have refused to comment, saying only that the shares are currently still held in escrow.

No price was given for family trusts' sale yesterday. However, in London—where Cambrian and General quote—was restored in early June—the ordinary shares held steady at 136p while the capital added 1p to 223p, valuing their stake at £6.4m.

Andam Resources joins Third Market

Andam Resources, a Northern Irish mineral exploration company, which was traded under Rule 555 (8), is joining the Third Market via an introduction.

Andam is concentrating its maximum exploration effort this year on prospecting for alluvial gold in County Down and County Mayo.

Wm Ransom ahead

William Ransom & Son, Hertfordshire-based manufacturing chemist, lifted pre-tax profits by 9 per cent from £592,000 to £624,000 in the year ended March 31, on turnover down from £25.2m to £26.2m. The comparisons are restated.

A final dividend of 0.75p is proposed compared with 0.51p adjusted for a nine-for-one scrip issue. This will bring the total for the year to 1.15p (0.965p adjusted). Earnings per 10p share worked through at 3.27p (4.03p).

The company's profit sharing scheme took £18,000 (£15,000) and the total tax charge was £114,000 against a £32,000 credit.

Yattendon Investment Trust Limited

has sold its
Dillons Newsagents business
to
Next plc

Smith & Williamson Securities

acted as financial adviser to
Yattendon Investment Trust Limited

Smith & Williamson Securities

No 1 Riding House Street London W1A 3AS Telephone 01 637 5777 Telex 25187 SMW G Fax Group 3 01 631 0741

UK COMPANY NEWS

Kentish Property listing

BY RICHARD TOMKINS

Kentish Property, a company specialising in residential developments in north and east London, is joining the stock market through a placing of shares which will value it at £36.7m.

Robert Fleming, the merchant bank, is placing just under 5m shares—a quarter of the total equity—at 185p each. The placing price is 14.8 times forecast earnings for the year to next December.

Kentish specialises in residential developments and conversions. The company's policy is to

provide flats and houses which are out of the ordinary but blend with their surroundings. Completed projects include The Bowbrook School in Bow, Sutton Square in Hackney, Orchard Mews in Islington and Victoria Chambers in the City.

The prospectus shows profits taking a dip in 1984 because of higher-than-expected construction costs on Sutton Square. Since then the company has stopped doing its own construction work, and pre-tax profits before directors' additional remuneration rose from £349,000 to £1.2m in the year to last

December.

In the current year, the company will be taking profits from developments at Watermill Quay in Clapton Common and Cascades in Dockland's Westferry Road, and pre-tax profits of £3.4m are forecast.

Some £2.1m of the issue proceeds will go to Kentish's chairman, Mr Keith Preston, and his wife Kay. The balance of £8.5m net of expenses will be used to cut the company's heavy short-term borrowings, leaving the debt/equity ratio at about 60 per cent.

WATERGLADE
INTERNATIONAL HOLDINGS plc

"IN THE SHORT PERIOD SINCE OUR FLOTATION WE HAVE CONTINUED TO MAKE SOUND PROGRESS. THE GROUP HAS SUBSTANTIAL CASH DEPOSITS AND IS POISED TO EXPAND ITS DEVELOPMENT ACTIVITIES. WITH THE RESOURCES WE HAVE AVAILABLE IT IS WITH CONFIDENCE THAT WE LOOK FORWARD TO ANOTHER SUCCESSFUL YEAR"

... Extract from Chairman's statement.

Year ended 31st March	Pro forma	1987	1987	1986
		£000	£000	£000
Turnover	10,932	7,990	10,657	
Profit before tax and extraordinary items	3,146	1,406	1,192	
Taxation	818	592	472	
Profit after tax before extraordinary items	2,328	814	720	
Extraordinary items	-	-	235	
Profit attributable to shareholders	2,328	814	955	
Earnings per share	12.73p	4.48p	3.97p	

The pro forma statement of results for 1987 incorporates the year's results of companies acquired during the year and since the year end. The basis of preparation is consistent with that adopted in the placing document which was issued on 3rd April 1987, and which contained an estimate of a pro forma profit before tax of not less than £3 million.

Copies of the report and accounts will be available from The Secretary, Waterglade House, 5-7 Ireland Yard, London EC4V 5DQ.

Max Wilkinson in Ohio examines the reorganisation in the US of BP and Standard

Preparing for the fruits of marriage



Sir Peter Walters, chairman of BP

"IS THERE life after Prudhoe?" That remains the big question for Standard Oil of the US after British Petroleum announced a new integrated management structure yesterday to consummate the union of the two companies.

Prudhoe Bay on the wild Arctic shore of north Alaska is where the US's largest oilfield was discovered in 1968, half of it acreage leased to BP. The British company exchanged its interest in Prudhoe for a majority part of the equity in Standard (the SOCO).

Prudhoe and the smaller surrounding fields have been the backbone of Standard for the past decade, contributing almost 50 per cent of its \$2.95bn (£1.8bn) replacement cost operating profit in 1986, the year before oil prices collapsed.

But now, 10 years after the first oil was pumped from Prudhoe down the 800-mile trans-Alaskan pipeline, output from the field has started its inexorable decline. Advanced recovery techniques, including the drilling of angled wells, and careful reinjection of high-pressure gas and sea water, may perhaps squeeze an extra 1bn barrels from this 11bn-barrel field.

But eventually, when about 1,000 wells have been sunk through the spongy peat into the permafrost below, nemesis will surely approach.

Standard has been successful in developing its new Alaskan field at Prudhoe on an enormous artificial gravel island three miles offshore—it comes into production this year on time and well below budgeted cost. But this field is relatively small, so the additional output will not make up for Prudhoe's decline.

The decision was, of course, foreseen years ago when it was first realised that Prudhoe would have a momentous impact on BP's fortunes. Just about the same time that the company was reaping the benefits of the big fields found in

the early days of North Sea exploration. Indeed, the "Is there life after..." question confronts all major oil companies in one guise or another. If they want to remain big and profitable in the 15 years when present reserves run down, they must discover more oil or find another nice big earner.

Sohio did neither. From William House in London its major shareholder looked on with increasing alarm as the US management seemed to make one false move after another, even though it was successful as an operator in the large and more powerful field of its reserves in the lower 48 states of the US.

Yet Sohio squandered a huge amount of its Alaskan cash flow in a largely unsuccessful effort to build up oil reserves in the lower 48 states of the US. It made a spectacular error of timing when it bought Kenne-

cott, a copper mining company, just as the price of base metals was about to collapse. Then it was much too slow for BP's liking to acknowledge its mistakes and to make the painful cutbacks which had become necessary.

Last year's collapse in oil prices provided the crisis which enabled BP to gain the assent of Standard's independent directors for a purge of top management, which was replaced headed by a team from England led by Mr Robert Horton. He was the man who closed 20 of BP Chemical's plants and cut its workforce by 60 per cent earlier in this decade.

He acted with similar decision at Standard, selling off poor oil leases and unproductive assets, renegotiating a key labour contract at Kennebec, pruning staff and generally shaking up middle management with a programme of redress and promotions.

Then, as the oil price stabilised this spring, BP made the bold decision to bid \$7.9bn for the 48 per cent of Standard that it did not already own. One of the main motives was to en-

able the British top management to get direct control of the large positive cash flow from the Arctic and so to formulate a more integrated "life after..." strategy.

But BP was also animated by that predatory instinct of all oil companies to become ever bigger and more powerful. The completed merger puts BP decisively into third place, ahead of Mobil and behind the two giants, Shell and Exxon.

BP appointments

Charles H. Bowman, president of Old Bear Coal Company, joins the board of BP Coal. E. John P. Browne, executive vice president of BP America, and William J. Johnson, president of the Standard Oil Production Company, join the board of BP Exploration. J. Douglas Campbell, president of the Standard Oil Chemical Company, joins the board of BP Chemicals International. Frank E. Mosier, president of BP America and John G. McDonald, president of Sohio Oil, join the board of BP Oil International. J. Colin E. Webster, executive vice president of BP America, joins the board of BP Minerals International.

It also marks BP a truly international oil company. As Sir Peter Walters, the BP chairman, said here yesterday: "Our post-merger assets in the States amount to some \$20bn, over three times the size of those in the UK."

But a large part of that \$20bn is far away on the 700 square mile oilfield on that desolate plain between the Alaskan mountains and the Beaufort Sea. BP will hope, as other US oil companies do, that Congress will soon open up the nearby Arctic National Wildlife Reserve for oil exploration.

But oil has yet to be found there and would certainly take many years to develop. BP must therefore concentrate on the short-term pursuit of profitability. The reorganisation announced yesterday aims to put this at the centre of its corporate agenda by grouping Standard's and BP's US operations in a matrix of semi-autonomous companies. The organisation follows the

pattern adopted successfully by BP elsewhere.

Broadly it will emphasise BP's leading role in exploration and production while playing to Standard's strengths in the downstream part of the business.

The major change will be that every part of the empire must compete for investment funds, ultimately answerable to the centre, although each company will be given considerable operational autonomy.

In this way, Sir Peter hopes that Standard's profitability will be rebuilt in a similar way to that achieved in BP in its recovery phase after 1979.

This will enable the group to build a strong strategic position and accelerate retirement of its debt. This will in any case be significantly reduced by the \$1.5bn rights issue announced yesterday.

What then? Acquisitions? More diversification, like the successful expansion of animal feeds last year? Or will BP keep going for oil while trying to expand its limited portfolio of gas assets? No doubt all these will be pursued depending on the company's assessment of prices and other strategic factors.

At the turn of the year, Sir Peter said that "unit profitability" was his goal. No doubt it still is; but there is no mistaking the more aggressive, expansionist tone that BP is now taking.

Yesterday Sir Peter was saying: "The whole thinking behind the acquisition of the Standard minority has been to create a base for even further expansion. This is now what we are in business to do—both in the States and throughout the world."

Yet Sir Peter knows that as the big oilfields run out BP will have to run quite fast just to stay in the same place.

APPOINTMENTS

Chief executive at Leeds Permanent

Mr Mike Blackburn, who recently finished his secondment from Lloyds Bank as chief executive of ACCESS (the joint credit card company), is to join the board of Leeds Permanent Building Society. He will become the chief executive of the society on the retirement of Mr Peter Hemmings in the autumn.

At RANKS HOVIS McDONOUGH, Mr Peter Coker has been appointed to the board. He will succeed Mr Tim Howden as planning director and will continue with his other current responsibilities.

Mr David McWilliam has been appointed chief executive of LONDONCLEAR, the company recently formed to establish a central depository and clearing system for the London money market. He was formerly head of regulatory services at the Corporation of Lloyd's, and prior to that, he was managing director of R. P. Martin.

Mr David Beatham has been appointed as joint director, HODGSON HOLDING. He is responsible for the East Midlands and South East regions. He joined Hodgson Holdings in 1980, having previously worked for Associated British Industries, Bonham & Sons for 12 years prior to its acquisition by Hodgson.

METIER MANAGEMENT SYSTEMS has appointed Mr Graham as managing director, UK operations. He joined Metier in April 1982 as utilities marketing manager in the US before becoming UK northern regional sales manager in April 1986. He replaces former managing director, Mr Richard Lloyd, who has resigned for personal reasons.

Mr Alan Clark, Trade Minister, has appointed Mr Peter Leslie, deputy chairman and managing director of Barclays Bank, as

chairman of the EXPORT GUARANTEES ADVISORY COUNCIL in succession to Sir Jeffrey Bensen, who has retired from the council on completion of his term of office. Mr Timothy Salitt, a director of Hawker Siddeley Group, has been appointed deputy chairman of the council in succession to Mr Leslie. Mr Leslie, who was previously a member of the council from 1978 to 1981, rejoined as deputy chairman from September 1984. Mr Salitt became a member of the council in June 1986.

At WILLIAM DAWSON (HOLDINGS), Mr Peter M. Brown joined the board on July 1 as a non-executive director. Mr Brown is a director of Associated British Industries, Reward Regional Surveys and a number of private companies. Mr Wally Crossland has retired.

Mr John Bower, chairman of KIER's southern regional companies, will retire at the end of August. Mr Alan Baird, chairman of Kier's companies in London and the south east, will succeed him. Mr Roy Stevens, who relinquished the chairmanship of Kier companies in London to concentrate on strengthening co-ordinating Kier's marketing drive, returns to chair the London and south east companies. He will continue to assume board responsibility for Kier's marketing operations. Kier is the contracting division of C. H. Beazer (Holdings).

The man who was managing director of the Billards supermarket chain until its takeover by Tesco, is to join the POUND-STRITCHER GROUP to head its expansion programme and move it up-market. He is Mr Robert Dwyer, who will take over as managing director in mid-August.

Isle of Man Enterprises cuts losses

Isle of Man Enterprises, operator of holiday accommodation, substantially reduced its pre-tax losses from £55,948 to £18,169 in the six months to April 30 1987. At the year end, the company reported pre-tax profits of £118,000.

The directors said their decision to pursue an active

policy of expansion is already showing through in these improved results for the half year.

They are continuing this policy and are positively exploring a number of potential opportunities for further growth. Given the acquisition of Whitehouse Garage and Shoprite, the directors look forward with confidence to a very substantial improvement in the company's results for the full year.

Turnover and other income in the opening half rose from £34,246 to £155,373, and net income amounted to £26,317 against a deficit of £9,169. The loss per share, stock unit was 146p (4.57p).

This advertisement is issued in compliance with the Regulations of the Council of The Stock Exchange. Application has been made to the Council of The Stock Exchange for the whole of the ordinary share capital of the Company, issued and to be issued, to be admitted to the Official List.

KENTISH PROPERTY GROUP PLC

(Registered in England and Wales No. 147065)

Placing by
ROBERT FLEMING & CO. LIMITED
of 4,954,000 Ordinary shares of 5p each at 185p per share payable in full on acceptance

Authorised	Issued and fully paid
£	£
1,325,000	990,800
Ordinary shares of 5p each	

Based in St. Albans, Hertfordshire, Kentish is involved in property development and trading, principally in the North, East and Docklands areas of London.

4,954,000 Ordinary shares are being placed through two distributors, Panmure Gordon & Co. Limited and Robert Fleming Securities Limited, at the addresses below.

Listing particulars relating to Kentish Property Group PLC are available in the *Estad* Statistical Services and copies of the listing particulars may be obtained during normal business hours up to and including 24th July 1987 from the Company Announcements Office, The Stock Exchange and on any weekday (Saturdays excepted) up to and including 5th August, 1987 from the registered office of the Company, The Old Church, 48 Verulam Road, St. Albans, Hertfordshire AL3 4DH, from the Company's Registrars at Arthur House, 803 High Road, London E10 7AA, and from:

Panmure Gordon & Co. Limited
9 Moorfields Highwalk
London EC2Y 9DS

Robert Fleming & Co. Limited
Robert Fleming Securities Limited
25 Copthall Avenue
London EC2R 7DR

22nd July, 1987

Friendly
HOTELS

- Profits up by 333%
- Well placed to make further significant progress in current year

	Increase	1986	1985
	86/85	£	£
Turnover	+280%	6,068,148	1,595,815
Profit before tax	+333%	780,976	180,393
Dividends	+80%	79,236	44,100
Earnings per share	+188%	6.44p	2.24p

- Benefit of upgrading schemes and acquisitions expected in late 1987 with full impact in 1988 and beyond
- Hotels, Specialist Catering, Serviced Offices, Nursing and Care Homes all making progress toward reaching their full potential

Friendly Hotels PLC,
257 Hagley Road, Birmingham B16 9NA

"YOUR KEY TO FRIENDLY COMFORT"

GRANVILLE
SPONSORED SECURITIES

High Low	Company	Price	Change	div. (p)	%	P/E
188	121 Aus. Brit. Ind. Ordinary	192	—	7.3	3.8	11.8
180	148 Aus. Brit. Ind. CULS	190	—	10.0	8.8	—
40	24 Amalgamated and Wood	40	—	4.2	10.5	8.8
142	87 BSB Develop Group (USM)	130	—	5	2.1	15.7
317	215 Bardon Hill Group	317ad	—	8.3	1.7	20.1
176	85 Bony Technologies	176usd	—	4.7	2.7	14.0
226	130 CCL Group Ordinary	225	+8	11.5	4.9	6.0
129	39 CCL Group 10pc Conv. Pref.	129	+3	16.7	12.2	—
163	128 Carborundum Ord.	163	+1	5.4	3.5	12.3
94	91 Carborundum 7.5pc Pref.	94ad	—	10.7	11.5	—
108	87 George Blair	108	—	3.4	3.4	2.8
143	119 Isle Group	120	—	—	—	—
74	58 Jackson Group	74ad	+2	3.4	4.8	8.2
440	21 James Burroughs	440ad	—	18.2	4.1	10.0
57	86 James Burroughs 5pc Pref.	57	—	12.9	13.2	—
780	510 Molybdenum NV (AmstSE)	520	—	—	20.5	—
510	351 Record Highway Ordinary	510	+5	1.4	—	10.3
88	82 Record Highway 10pc Pref.	82ad	—	14.1	17.2	—
91	80 Robert Jenkins	90	—	—	3.5	—
122	42 Scrivens	122	+2	—	—	—
103	141 Tinsley and Carlisle	103	—	8.5	3.4	8.4
430	321 Travlin Holdings	420usd	—	7.9	1.9	8.7
130	73 Unilever Holdings (SE)	130ad	—	2.8	22	28.8
150	115 Walter Alexander	150	—	5.9	3.1	14.1
198	130 W. S. Yates	198ad	—	17.8	8.9	19.5
175	58 West Yorks. Ind. Hosp. (USM)	137	-13	5.5	4.0	14.6

Granville & Company Limited
8 Lower Lane, London EC3R 8BP
Telephone 01-621 1212
Member of FIMBRA

Granville Davies Coleman Limited
27 Lower Lane, London EC3R 8DT
Telephone 01-621 1212
Member of the Stock Exchange

This advertisement does not constitute an invitation to any person to subscribe for or purchase shares. Application has been made to the Council of The Stock Exchange for the whole of the ordinary share capital of Kingsgrange plc, issued and now being issued, to be admitted to the Official List.



Kingsgrange plc

(Incorporated in England, registered no. 163839)

Kingsgrange's business comprises the design, development, manufacture and marketing of a wide range of toiletry and skin care products. It manufactures to its customers' own-label requirements and, in addition, markets its own range of branded products under the Peter & Moore and Jean Sorelle brand names.

Placing by
Schroders
of
3,241,015 ordinary shares of 10p each at a price of 140p per share

Authorised	In ordinary shares of 10p each	Issued and now being issued fully paid
£2,000,000		£1,496,400

Conditionally upon the admission of the ordinary share capital of Kingsgrange plc to the Official List on or before 26th August 1987, J. Henry Schroder Wagg & Co. Limited has placed 3,241,015 ordinary shares at 75 pence each through Scheridon Lehman Securities, and as to 25 pence each through Schroder Securities Limited as to the placing arrangements.

Particulars relating to the Company are contained in new issue cards circulated by Best Financial Limited and copies of the Placing document comprising listing particulars in relation to the Company may be obtained during normal business hours, up to and including 5th August, 1987, from:

J. Henry Schroder Wagg & Co. Limited
120 Cheapside,
London EC2V 6ES

Kingsgrange plc
140-144 Holland Park Avenue,
London W11 4UE

and at 1210 Lincoln Road,
Warrington,
Cheshire WA9 6JH

Scheridon Lehman Securities
1 Broadgate,
London EC2M 7HA

and, during normal business hours on 22nd and 23rd July 1987, from:
The Company Announcements Office, The Stock Exchange, Throgmorton Street, London EC2R 2ET

22nd July, 1987

UK COMPANY NEWS

Tip Top Drugstore £700,000 shortfall

By Steven Butler

Tip Top Drugstore, the drugstore chain in North England and Scotland, yesterday said that an unresolved £700,000 shortfall had been uncovered between pre-tax profits indicated in its year-end financial accounts and those indicated in management accounts that had been prepared monthly through the year, which ended on May 30.

The discrepancy is under investigation by the company and its auditor. Tip Top's shares slumped 20p to close at 171p subsequent to the announcement, although neither profit figure was disclosed.

Tip Top's pre-tax profits in the six months to the end of November were up 23 per cent to £758,000. Analysts had been expecting full-year profits of about £1.5m. Mr John Marden, finance director, said yesterday that year-end results would be announced after the investigation had concluded.

Pineapple in US

PINEAPPLE Group's US subsidiary has acquired two marketing services companies in New York, BMS Marketing Services and Infinite Inc. The initial cash consideration for BMS was \$400,000 (£250,000) and \$600,000 (£375,000) for Infinite. Deferred consideration will be payable based on future profits and performance, in the periods up to November 30 1988.

James Hardie

JAMES HARDIE Industries is to dispose of its 30 per cent holding in UAC Berhad in Malaysia. It is expected that the sale will generate \$35m. Mr James Marchie, managing director, said that the sale would release funds for expansion of the group's core business activities in Australia and elsewhere overseas.

Whitbread

WHITBREAD shareholders were told at yesterday's annual general meeting that despite poor spring and summer weather, beer sales were only a fraction below last year. The wines and spirits businesses continued to improve.

Courtauld

COURTAULDS chairman told the annual meeting the company's business was continuing to perform strongly and were in line with expectations. There were one or two factors which were less favourable than they were last year. The company nevertheless remained encouraged by the start made in the current year.

Reed progress

REED INTERNATIONAL's first quarter profit continued to be satisfactory and in line with expectations, said the chairman at the annual meeting. This was against a background of a slowly improving US economy and a reasonably buoyant UK one.

Contibrel

TRACTREL GROUP BRUXELLES LAMBERT said they owned or had acceptances for shares representing more than 50 per cent of Contibrel's capital. Accordingly, the offer had become unconditional as to acceptances and is therefore now unconditional in all respects.

Temple Bar makes novel issue to raise £22.3m

By Mike Smith

Temple Bar Investment Trust yesterday announced plans to raise £22.3m through an innovative rights issue of convertible stock which shareholders will be able to require the company to redeem.

Although this type of stock has featured in Eurobond issues, the trust's corporate finance adviser Hogg Robinson said that the issue was the first of its type in the UK domestic market.

Temple Bar's results for the six months to the end of June, also announced yesterday, show net asset value per ordinary share rising by 43 per cent to 297p. Profits before tax fell from £2.82m to £2.54m.

An interim dividend of 2.64p, 10 per cent up, was declared and the shares remained steady at 289p.

The trust is making its call on shareholders in part to repay a loan which financed the recent £11.8m acquisition of 16 office, retail and warehouse properties and other short-term

borrowings. The balance will be invested in line with the company's policy of concentrating on equities with yields above the FT Actives All Share Index.

Temple Bar is issuing up to £22.9m of 8 per cent convertible loan stock 2002 at par on the basis of £3 nominal of convertible for every five ordinary. The stock will be convertible into ordinary at the rate of one ordinary for each £3.17 nominal of convertible stock.

The novel feature of the issue is that it offers insurance against Temple Bar underperforming because it allows stockholders to call on the company to redeem the stock in 1992. The redemption price would be £1.17 per £1 nominal of convertible stock, giving a semi-annual yield of 8.77 per cent.

Professor Roland Smith, chairman, said the issue offered shareholders the best of both worlds.

"Stockholders can partici-

pate in the growth of the company through the conversion option, while retaining protection against the possibility of adverse market movements through the five-year put option," he said.

In his interim statement, Professor Smith said the different results for profits and capital were directly related. The company had been geared to take advantage of the rising UK equity market and the rate of capital growth had exceeded income growth.

The higher level of borrowings resulting from this strategy and the purchase of the property portfolio had increased the amount of interest payable. The trend in income from underlying investments continued to rise and the company expected the income position to improve in the second half.

After tax of £789,000 (£731,000) earnings per share were 3.024p (3.277p).

P&O offers plan for Euroferries stock

By Nikki Tait

P&O, the shipping and property group which earlier this year acquired control of Townsend Thoresen parent European Ferries, yesterday unveiled a scheme through which Euroferries concessionary shareholders would switch into a new class of P&O concessionary stock.

P&O says the scheme is being put forward for administrative reasons. At present the company is obliged to arrange separate annual reports and meetings for the Euroferries shareholders. The scheme will require the approval of both P&O stockholders. Euroferries shareholders as well as court sanction.

The Euroferries' concessionary stock, which is quoted on the stockmarket, came into being in 1984. In an effort to curb the costs of the "cheap fares" perk enjoyed by shareholders, the company split its equity into new preference shares which enjoyed the concessionary rights, and ordinary

shares, which did not, and invited existing shareholders to choose.

However, in the face of considerable opposition, Euroferries was obliged to amend its original proposals in particular to drop directors' ability to terminate the concessionary scheme after 1989.

Today, there are about 130,000 holders of the 66m concessionary shares, enjoying a 50 per cent discount on Townsend Thoresen shares. P&O is offering them £1 of P&O concessionary stock per share, which will give them the same rights to cheap fares. The P&O stock will also earn a slightly higher dividend — 5.5 per cent net against the current 5 per cent, and will again be quoted.

However, the shareholders' voting rights in P&O will be a one vote for £4 of stock held, so they will speak for about 5 per cent of the shipping giant. P&O argue that the ratio of voting rights is in line with that accepted by former Euroferries ordinary shareholders.

Hogg Robinson optimism at defeating TSB offer

By Nick Munkin

Hogg Robinson, the insurance broking, travel and estate agency group, says it is gaining ground in talks with major shareholders aimed at beating off the hostile cash offer worth 600p per share from TSB, the banking group.

Mr Andrew Aler-Hankey, Hogg's group finance director, said yesterday that so far were heavily in favour of Hogg's alternative plan for a demerger into two separate public companies, Hogg Robinson plc and Hogg Robinson & Garment. That plan is to be put to a vote at an extraordinary general meeting next Monday.

Mr Aler-Hankey added that the tide "was beginning to turn in our favour" after a first round of meetings with some of Hogg's 100 institutional shareholders. Hogg has a further 4,000 individual shareholders.

Lezard Brothers, TSB's merchant bank advisor, said Mr Aler-Hankey's impression was not reflected in the TSB's own talks with institutions.

"Most of them are saying they will make up their minds at the

last minute," Lezard said. Hogg's share price closed up 11p at 589p last night. Hogg Robinson yesterday wrote to shareholders dismissing the TSB's bid as "inadequate in value" and not in the best interests of investors.

The TSB's plan is to keep Hogg Robinson's travel, estate agency and UK retail services business. It would then sell its Lloyd's and US broking side to Dewey Warren, a small reinsurance broker 43 per cent owned by Bell Group International. Investment vehicle of Mr Robert Holmes & Court, the Australian financier.

Hogg's letter said that the TSB's plan would mean that Hogg's present shareholders "would be unable to participate in the future growth of the two separated Hogg Robinson companies."

"Furthermore, in present market conditions there can be little attraction in being required to sell a good investment for cash, or, as an alternative, loan notes when, depending on your circumstances, this may result in a liability to capital gain tax."

Charterhall in the black with £3.7m

By Terry Power

Charterhall, the oil and gas company which has been transformed into an investment vehicle by Mr Russell Howard, the Australian entrepreneur who became chairman a year ago, has reported interim profits of £3.7m to June, compared with a loss of £8.25m affected by write-downs.

Over the last 12 months Charterhall has accumulated stakes in five UK-quoted companies — spending £15.2m taking a 25.83 per cent holding in Trillion, 16.6 per cent of Allphone, 6.66 per cent of Bridport, 5.18 per cent of A. Goldberg and 3.16 per cent of The House of Loree plus a number of smaller investments. The company said that as of June 30 this portfolio had a market value of £31m.

The best of Charterhall's remaining oil producing assets have been written down to a net value of £19.5m. In the six months oil sales produced gross profits of £757,000 (£380,000).

Since a £9.4m cash subscription for a share deal in June 1986, Charterhall has been 89 per cent owned by Westmax, the quoted Australian investment holding company in which Mr Howard has a 30 per cent holding.

As with its parent, Charterhall takes gains on investments into pre-tax profits — the £4.05m (£149,000) "other operating income" taken pre-interest and expenses being buoyed by the company's £900,000 (net of all costs) profit on the sale of its 14.9 per cent holding in Lookers in February.

The pre-tax total was struck after administration expenses of £944,000 (£1.5m) and net interest paid of £229,000 (£571,000). In the first half of 1986, oil and gas provisions plus exploration cost write-downs totalled £5.6m.

After minimal taxes paid of £36,000 (£37,000) thanks to Charterhall's losses, attributable profits were £3.7m (£6.25m losses), producing reported earnings per share of 3.01p (loss of 10.9p). No interim dividend is being paid.

In a statement to Westmax's Australian shareholders, Mr Howard points to the reduction of overhead costs at Charterhall, the sharp fall in exploration commitments to under £300,000 compared with almost £3m a year ago and the company's move into cheaper London offices.

Throgmorton USM Trust assets rise

By Philip Cogan

Throgmorton USM Trust, investment trust specialising in the United States Market, yesterday announced a 65 per cent growth in net assets during the first six months of its year.

Net assets per share at the interim stage were 194p, 81 per cent higher than a year previously. That compares with a rise in the FT All-Share Index in the same period of 41 per cent and in the Datastream USM Leaders Index of 60 per cent.

When the trust, which has a seven-year life, was launched on the main market eighteen months ago, about 82 per cent of the ordinary shares were left with the underwriters. Last night, the shares stood at 187p.

Earnings per share were 0.64p (1.78p) and again no interim dividend is being paid.

NatWest Mortgage Rate

With effect from 1st August, 1987 for existing borrowers, the NatWest Mortgage Rate payable under current Mortgage Deeds and Conditions of Offer will be decreased from 11.25% p.a. to 10.5% p.a.

National Westminster Home Loans Limited
41 Lothbury, London EC2P 2BP.

Abaco in £10m quantity surveying acquisition

By Philip Cogan

Abaco Investments, the acquisitive financial services group, has bought again. It is paying a maximum of £10m for Mott Green & Wall, a quantity surveying firm.

MGW specialises in mechanical and electrical services quantity surveying and has hopes for future growth via the refurbishment of office buildings and through construction projects like shopping malls and public

building works.

In the year ended June 30 1987, MGW achieved net pre-tax profits of £264,000. Initial consideration will be £6.5m, £3.5m payable in cash and £3m via the issue of 4.1m Abaco shares. Further tranches up to the maximum will be payable dependent on future profits.

British & Commonwealth Holdings has a 27.5 per cent stake in Abaco.

BOARD MEETINGS

Company	Date
Berkley Group	July 30
British Vintages	July 30
Commercial Bk. of New East	July 30
Control Techniques	July 30
Cowles (T)	July 30
Johnston's Palm	July 28
Midland Bank	July 28
Mount Carmel Inv.	July 28
Finland	
Banks (Sloven C.)	July 30
Cap Group	July 30
Cowen de Groot	July 27
Forminier	July 31
Great European Share	July 27
Mountain	July 27
Scottish English and Euro	Aug 6
Swedish	July 30
Stewart and Wright	July 30
YRM	July 30

Interim: Allied Trade, Fleming, Fidelity Investment Trust, Finnis, Arden, Bampf, Border Television, Bessway, Mervin, Swift.

Interim: Applied

Aug 13



Occidental Petroleum Corporation

(Incorporated with limited liability in the State of Delaware in the United States of America)

Authorised
400,000,000

Shares of Common Stock of US\$0.20 par value

Issued at
30th June, 1987
204,337,064

Application has been made to the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange") for the admission to the Official List of all of the 204,337,064 shares of Common Stock of Occidental Petroleum Corporation (the "Company"), in issue following its reincorporation in the State of Delaware, and issued subsequently up to 30th June, 1987.

Particulars of the Company are available in the statistical service of Exel Financial Limited. Listing particulars relating to the Company and its reincorporation have been published and copies may be obtained during usual business hours, up to and including 24th July, 1987, from the Company Announcements Office of The Stock Exchange (for collection only) and, up to and including 5th August, 1987 from:

Cazenove & Co.,
12, Tokenhouse Yard,
LONDON, EC2R 7AN

22nd July, 1987

Comments
Demand in agricultural markets remained weak as many farmers delayed fertiliser purchases. A scheduled maintenance shutdown of the nitrogen plants at Modderfontein also impacted on results for the period. The positive effects of the acquisition of the Potchesteer fertiliser factory in February will only be felt in the second half and given normal rates in the summer rainfall area, profits from this sector for the year are expected to show a substantial improvement over those achieved in 1986.

Excluding the agricultural business, the volume of domestic sales for the first six months increased by 3% relative to the corresponding period in 1986 and profits improved significantly as margins responded to higher plant loadings. Financing costs were further reduced, notwithstanding the acquisition cost of the Potchesteer factory, reflecting both lower interest rates and a decline in the average level of borrowings. Continuation of a moderate recovery in the domestic economy together with better prospects for farmers should allow an improved growth rate in profits in the second half-year.

On behalf of the Board
G W H Kelly
M A Sander } Directors

Consolidated Share Registrars Limited
40 Commissioner Street
Johannesburg
and

Bill Samuel Registrars Limited
6 Greencoat Place
London SW1P 1PL
England

Registered office:
16th Floor, Office Tower
Carlton Centre
Johannesburg

Declaration of ordinary dividend No. 106
NOTICE IS HEREBY GIVEN that an interim dividend of 25 cents per share, in respect of the year ending 31 December 1987, has been declared to holders of ordinary shares registered in the books of the Company at the close of business on 28 August 1987.

Cheques in payment will be posted from the offices of the transfer secretaries in Johannesburg on or about 25 September 1987. Changes of addresses or dividend instructions to apply to this dividend must be received not later than 28 August 1987. In terms of the Income Tax Act, dividends payable to persons not ordinarily resident nor carrying on business in the Republic of South Africa are subject to deduction of non-resident tax at the rate of 13.7025%. The transfer book and register of members will be closed from 25 August to 11 September 1987, both days inclusive.

By order of the Board
M J F Potgieter
Secretary
21 July 1987

JOBS

Work in high-tech, OR, venture fund etc.

BY MICHAEL DIXON

UNTIL the other day I assumed James Thurber was joking when he described the anxieties that gripped him when people said things they might or might not really mean.

But I have lately had first-hand experience of the alarm and despondency that can be created by such incidents. It's the uncertainty that gets you, and thereafter keeps you awake at night brooding.

Take for instance Thurber's reaction when his housekeeper burst into his study and declared there was something wrong with "the doom-shaped thing in the kitchen."

It is true that a perfectly harmless explanation was possible. She might simply have made a slight terminological mistake in referring to the kitchen water-cooler which was topped by a dome.

Then again, however, she might not. And although Thurber had not himself noticed anything untoward lurking among the pots and pans, that was no guarantee of safety. One does not need to read much of the world's great literature to be struck by the regularity with which doom-shaped things are overlooked by the people whose doom they are portending.

The parallel event in my case was the arrival of a letter from Andy Ednie, managing director of Qualitair (Air Conditioning) of Sittingbourne. Since the large part of what he had to

say was informative as well as affable, I at first thought I hadn't anything to worry about. Then I came to the last paragraph, which read:

"I enjoy your column very much and find it a useful barometer of current attitudes on employment."

Now, given the way that sentence begins, the key word which comes later may be just a misprint. But having been exposed to many managing directors in my time, I know of their penchant for wrapping up bits of barbed wire in their bouquets.

So it may equally be that by "barometer" Mr Ednie really means a barometer—and while I have never yet seen such an instrument, I am under no illusion about what it must measure. Indeed the implications are such that I'd rather go on wondering which is the truth than pick up the telephone and find out.

Software chief

GEOFFREY KING of Cambridge Recruitment Consultants has been asked by a company just starting up in his bailiwick to find it a general manager. As he may not name his client he, like the other headhunters to be mentioned later, promises to abide by any applicant's request not to be identified to the employer at this stage of the proceedings. The company has been set

up by half-a-dozen people, all engaged in running other businesses in the high-technology field, who have devised ways of producing educational software which can be run on pretty well all the computer systems installed in schools throughout Europe. Development of the first products, concentrating on science-side subjects, is already well under way in the hands of the existing team of 18 mainly technological whizz-bangs.

Responsible to the six-strong founding board, the newcomer will first have to build up the organisation by recruiting the marketing, publishing and other skills the company will require to mount its assault on the Europe-wide educational markets. Thereafter the job will be to ensure that the operation swiftly achieves and maintains profitability.

Although there is a need for understanding—as distinct from specialist knowledge—of the relevant technology, the prime qualifications are marketing and sales ability together with skill in managing tightly innovative people. If candidates are already running a successful Europe-spanning business which encompasses software, publishing and education, so much the better. If not they should at least be managing sales and marketing in an organisation of similar kind.

The salary indicator is £45,000, with stock options as

well as car among the fringe benefits. Inquiries to Mr King at 1A Rose Crescent, Cambridge CB2 3LL: telephone 0223 311318, Fax 0223 316152.

Egghead

NEXT to a post being offered by the John Courtis and Partners consultancy in terms of a rich mix of metaphors. Not only is the job with a "blue-chip" employer in almost "green-field" conditions, but it is for a "high-level egghead" (most of those I meet seem to be of the scrambled variety).

The recruit will be based in Buckinghamshire as operations research manager of an offshoot of a financial services group which is seeking to break into new markets and otherwise broaden its business. Responsibility is directly to the marketing manager. The prime task of the job is to plan and carry into effect a direct-mail marketing campaign covering the several million people listed in the group's database.

Hence an interest in marketing and a commercial approach to operations research work will be of the essence. Candidates should also have at least a bachelor-level degree and preferably a postgraduate qualification in statistics, perhaps initially in combination with pure mathematics. A further requirement is experience of

applying statistical techniques, especially regression analysis, in direct-mail or market-research operations.

Starting salary will be around £22,000. The perks will include a car.

Inquiries to consultant John Gregory at 855 Silbury Boulevard, Central Milton Keynes, MK9 3ND: tel 0908 663692, Fax 0908 690061.

Midlands

A MIDLANDS venture capital fund-management company is seeking a senior case manager through recruiter Keith Phillips of Deven Anderson and Associates (Berwick House, 35 Livery St, Birmingham B3 2BP; tel 021-533 5320, telex DAA 538024).

Success in general management in engineering or science-based industry is essential. A degree in a technical subject or in management would help. Rewards negotiable from £40,000.

Sales boss

HEADHUNTER Brian Standing is looking for a sales director for a foods manufacturing and marketing company headquartered in west London. Its products, both branded and own-label, are distributed internationally and the newcomer will be responsible to the managing director for developing the entire sales operation

from strategy planning to leading by example in personally selling to key accounts.

Candidates should already have managed an effective national sales operation in the field of fast-moving consumer goods, ideally foods. The company places special importance on people-management skills such as not only eliciting the views of subordinates but actually listening to them as well. Those fluent in French or another major European language would have an advantage.

Salary £30,000-plus with car among other benefits. Inquiries to Standing Executive Search Associates, 53 Wycombe Road, Marlow, Bucks SL7 3EF: telephone 06984 5931, telex 847153 Marlow G.

Money

A DIRECTOR to lead the currency options and futures activities of the London branch of an international money-brokerage group is sought by recruiter John Williams (Russell, Williams and Associates, 45-46 St Mary's Road, London W5 5RQ; Tel: 01-579 1082). Tasks include starting a new interest-rate options development. The recruit will have a successful record in similar work, backed by at least six years foreign-exchange experience. Salary up to about £80,000 plus guaranteed first-year bonus, car and other City-type perks.

Financial Futures Sales £ Negotiable

Our client, the London based subsidiary of a major US bank is keen to expand its financial futures operation with the appointment of an experienced salesperson.

Candidates probably in their mid/late 20's, should have about two years' financial futures sales or trading experience and be fully conversant with charts and technical analysis.

Interested applicants should contact Stephen Cussens on 01-404 5751 or write to him in strictest confidence at Michael Page City, 39-41 Parker Street, London WC2B 5LH quoting reference 6011.



Michael Page City
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Major U.K. Securities House Investment Advisors Unit Trust Co. £ Neg

Our Client is the Unit Trust arm of one of Britain's largest Investment Management Companies. The continuing success of our Client's operation has led to two vacancies for Investment Advisors to work within the section which has direct contact with the investing public.

The qualities sought in candidates are a sound general knowledge of the British and International Investment scene, the ability to give sound and dispassionate advice on investment products generally, and to communicate with the public, both over the telephone and in writing.

The positions call for well educated men or women who will probably have a Private Client Stockbroking or Investment Management Company background with at least two years' experience, and who will welcome the chance to work in a highly respected team environment and make a direct contribution to the development of our Client's business. Knowledge of the Unit Trust/Off Shore fund industry would be a distinct advantage and age is not a limiting factor in this case. An attractive salary and benefits package will be negotiated.

Please reply in the first instance, quoting reference 838, to Keith Fisher at Overton, Shirley & Barry, Prince Rupert House, 64 Queen Street, London EC4R 1AD. Telephone: 01-248 0355.

Overton Shirley & Barry

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Applicants should have experience as a Registered Representative in the London Equities market and possess a high degree of numeracy as well as the ability to work quickly and accurately. The position also requires plenty of initiative and self-assertion. Knowledge of another European language would be an advantage.

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We are currently experiencing a demand for a number of stockbrokers, amongst the City's leading institutions, for analysts able to demonstrate impeccable track records. Of particular interest would be candidates specialising in the Retail and Banking sectors—fluency in one or more European languages would also be a considerable asset.

These positions afford the opportunity to work with prestigious and expanding teams, and remuneration will be commensurate with age and experience.

Please contact: Hilary Douglas, Stuart Clifford or Christopher Lawless on 01-585 0073 (or ring 01-671 6732 outside office hours).

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To arrange a discreet and informal discussion about these positions send your C.V. to Derek Burn or Robert Winter at MCP Management Consultants, or telephone 01-405 9000/1. (lines open until 10pm tonight and from 7am tomorrow), Ref: 7/631.

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Please send a detailed CV, including daytime telephone number, in strict confidence to John Salmon, at Management Appointments Limited (Search and Selection Consultants), Finland House, 56 Haymarket, London SW1Y 4RN. Tel: (01) 930 6314.

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the fleet partnership

Financial Recruitment Consultants, 37/41 Bedford Row, London WC1R 4JH. 01-831 1101

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Interested applicants should send a detailed CV, in confidence, to G. V. Goodley indicating for which vacancy you are applying. Capital Appointments Ltd, Sinclair House, 74, Wiloughby Lane, London N17 0SE.



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It has an annual turnover in excess of £200 million with a capital expenditure programme of £1 billion between now and the end of the century.

The Government intend privatising the water industry and Welsh Water now seek a dynamic and commercially astute professional to lead a highly motivated team initially during the transition period from public ownership to private ownership and afterwards during the post-privatisation period of greater commercial freedom.

The ideal candidate will be professionally qualified with considerable experience at a senior managerial level in a large, successful organisation.

An appreciation of the special factors associated with a monopoly service industry would be an added advantage.

The challenge is considerable - the rewards can be commensurate.

Please write with full personal details and career history to John Edd Jones Esq CBE, Chairman, Welsh Water Authority, Cambrian Way, Brecon, Powys LD3 7HR.

Closing date 1st September 1987.

Jonathan Wren

PRIVATE CLIENTS ACCOUNT OFFICERS £20,000 to £30,000

In order to maintain the position of world leaders in international banking, our client wishes to recruit several individuals with extensive experience of marketing private client banking services within Europe.

Fluency in a European language is essential as is the drive and personality required to succeed in an organisation where promotion is wholly dependent on personal achievement. Contact Sarah Stone.

SENIOR CREDIT ANALYST £20,000

Our client, a leading international bank, is seeking a senior analyst with considerable experience of corporate analysis, loans documentation and limited marketing exposure. Owing to the seniority of this vacancy, previous supervisory skills are essential. Contact Norma Given.

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The package on offer will be extremely attractive and will not be a limiting factor for the right candidate. Opportunities for progression and partnership will also be excellent. Those wishing to discuss this

position prior to making application should telephone Alannah Hunt on 01-407 8989. Alternatively, send full CV quoting reference MCS/6105 to her at: Executive Selection Division, Price Waterhouse Management Consultants, No. 1 London Bridge, London SE1 9QL.

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Stockbroking £60,000 package, negotiable

Our Client is a medium sized City of London stockbroking subsidiary of an investment bank, it has a very well established UK client base.

The manager will be responsible to the Board for the efficient running of all back office functions including settlements, data processing, liaison with financial management, personnel management, recruitment, training and Stock Exchange regulations/compliance.

Candidates must have extensive securities industry or banking experience, a general 'back office' management background and be technically first class. They should be confident that they are of general management potential. Remuneration is negotiable. Please either telephone Terry Fuller on 01-480 7766 during office hours, or 01-693 3739 at home for a strictly confidential discussion, or write to him with salary details and quoting reference LM928 at Spicer and Pegler Associates, Executive Selection, Friary Court, 65 Crutched Friars, London EC3N 2NP.



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For further details please contact Kevin Byrne on 01-248 3653 during office hours (01-874 9982 evenings/weekends) or send a detailed CV to the address below. All applications are treated in the strictest confidence.

BBM

60, Cheapside, London EC2V 6AX

Telephone: 01-248 3653

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Security Pacific National Bank's International Merchant Banking Group, which is headquartered in London is seeking to appoint Credit Officers at varying levels to assess new and existing banking capital markets business with sovereigns, corporates and financial institutions. One of these positions will involve some relationship marketing.

The ideal candidates will have:

- Appropriate experience of European corporates and financial institutions
- Strong analytical skills
- A degree/AIB or equivalent
- Familiarity with documentation

- Undergone a formal credit training programme, preferably with a major US Bank
- Some asset based and project related experience

Remuneration, which consists of comprehensive banking benefits, including a profit sharing scheme will be particularly attractive to candidates with strong potential, who are self-motivated and eager to succeed in a competitive environment.

Please write with a c.v. to: Patrick J. O'Hara, Vice President, Security Pacific National Bank, 4 Broadgate, London EC2M 7LE.



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Our client, one of the new breed of enlightened US regional banks, is intent on increasing the profitability of the dealing room which currently successfully covers a wide range of trading activities, without touching upon the Inter Bank Spot markets. There are few prejudices as to how the enhanced return will be achieved - that will, to a large extent, be the responsibility of the senior dealer - but true professionalism has formed a major part of success to date and that aspect will not be diluted. Initially there are two opportunities of interest to real traders with a background of non-corporate dealing in major currencies.

Senior/chief dealer

The title is irrelevant; the job in hand is to set up a new Forex section, initially with one other trader. Ideal candidates will be no more than thirty and have around five years' experience in at least one major currency as well as knowledge of other markets. Essentially, this is a speculative role and so the qualities of the hungry, market place trader are all needed; but in addition we need management skills, a forward thinking cerebral approach and a personality which will fit the current team-spirited environment. All that is a lot to ask, but in return our clients are offering a remuneration package which will attract the best. (Reference LC 7155)

Dealer

Still at a high level, but reporting to, and very much working with, the senior dealer, you will need the same qualities outlined above but with a little less experience, probably restricted to one currency. The role will be to run your own book in a major currency which suits your background and experience - a good ECU trader would be of particular interest. It is essential that you are currently dealing in a major currency - at this point we have little room for the exotics. Again, salary expectations are unlikely to disappoint and career opportunities are first class, within an organisation wholeheartedly committed to building a highly professional, profitable Forex team. (Reference LC 7156)

To talk about these opportunities or to arrange an exploratory meeting at our offices, please ring Malcolm Lawson on 01-493 5788 during the working day or 0444-73216 in the evening. Alternatively, send us your full career details, quoting the appropriate reference.

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Director of Marketing

Leasing/Asset Based Finance

City

City

A progressive and diverse international banking Group is seeking a Senior Executive to take over Marketing responsibility for its UK Leasing/Asset Finance company.

Based in the City, you will report to the Chief Executive responsible for Leasing/Asset Based Finance. Whilst predominately UK related, you will be encouraged to be innovative and develop cross border business.

Currently working in the leasing division of a banking Group, you will have a minimum of 3 years

experience in the leasing of capital equipment and a sound knowledge of the medium/big ticket market place. A strong marketing orientation is essential.

A competitive salary is offered, with performance related bonus, together with a car and usual bank benefits. Applications should be sent to Charles Earp of Cripps, Sears & Associates Limited, Personnel Management Consultants, International Building, 71 Kingsway, London WC2B 6ST. Telephone 01-404 5701.

Cripps, Sears

SHARE DEALERS EYAS SECURITIES LIMITED

We are a member of a small but Dynamic expanding group of companies involved in financial services. As a result we have a number of vacancies in our equity dealing room in London for experienced and trainee dealers in securities, who must meet the highest standards as required by FIMBRA of which we are a member.

If you seek an opportunity for high income, progression into management and would enjoy all the benefits of working in a highly professional environment and the challenge of meeting the increasing demand in this rapidly expanding industry, then please send your CV and full details to:-

Brian Pyle, Eyas Securities Limited,
15, Borough High Street, London SE1 9SE.

All enquiries will be treated in the strictest confidence.



Handwritten signature: J. M. P.

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Based in London, but working closely with our overseas offices in New York, Paris, Hong Kong, and Brussels, Linklaters & Paines is one of the leading law firms advising on international capital markets work including Eurobonds, securitisation, swaps, repackaging and loans.

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Please write, enclosing a CV to:

John Edwards,
Head of International Finance,
Linklaters & Paines,
Barrington House,
59-67 Gresham Street,
London EC2V 7JA.

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They are seeking an Analyst who will work with the UK/European Research Department analysing companies in Southern Europe. Experience in Spanish and Portuguese markets is essential and proven analytical skills are vital.

The successful candidate will be a European who is fluent in English but has linguistic ability in at least two other European Languages. The ideal applicant will be under 25 and have an MBA qualification from a major European business school.

A highly competitive salary together with an attractive benefits package will be offered.

Please write with full details by Monday 2nd August. These will be forwarded direct to our client. List separately any companies to whom your application should not be sent. Chris Plozman, ref. C/PB/9.

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We are now seeking a money dealer, preferably qualified to degree level, with a minimum of two years' experience in active money market dealing. Training would be given where appropriate in foreign exchange and Eurocurrency dealing.

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Please send full personal and career details, including current salary, to:

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Equitable House, 46 King William Street, London EC4R 9DD

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Investment Management Ltd

Director of Marketing

The International Stock Exchange is going to make a new appointment – a Director of Marketing – one of six Executive Board Directors reporting to the Chief Executive.

The Director of Marketing for The International Stock Exchange will have a major influence on the strategic direction of one of the world's leading financial institutions.

The Director of Marketing will be responsible for ensuring that the ISE continues to satisfy the wide ranging needs of its customers in a highly dynamic environment. This will require:

- building a detailed understanding of the ISE's customers' current and future needs
- setting policies that will meet these needs efficiently and effectively
- organising and co-ordinating resources within the ISE to ensure that the needs are satisfied

You will be an established authority in the marketing world, be aged 35-45, with multinational experience preferably at board level and be conversant with the challenges and opportunities offered by information technology. You will demonstrate highly developed communication skills and above all will possess the energy to drive forward the new marketing thrust of The International Stock Exchange.

The remuneration and benefits package is negotiable but is likely to be of interest to those currently earning in excess of \$60,000.

Please write in strict confidence with full career details to:
Jeffrey Knight, Chief Executive,
The International Stock Exchange of the United Kingdom
and the Republic of Ireland Limited,
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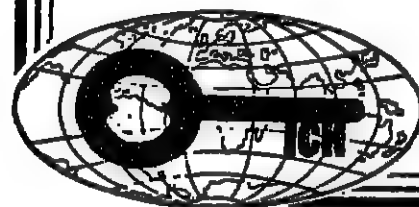
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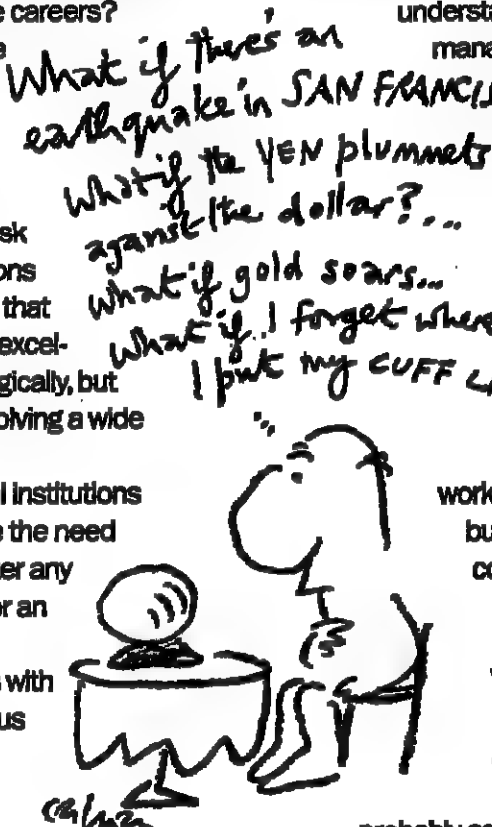
Operational Risk Management requires equal understanding of position monitoring systems, settlements systems and funds transfer mechanisms in addition to a working knowledge of Strategic Risk Management techniques.

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If the last 387 words have intrigued you sufficiently to want to learn more about consultancy with Price Waterhouse, please write in confidence, quoting reference MCS/8094 to Peter Humphrey, Price Waterhouse, Management Consultants, No. 1 London Bridge, London SE1 9QL.



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An exciting opportunity exists for an individual with a successful track record in actively managing a significant volume of marketable investment assets (multicurrency fixed income and equities) for a major institution or fund. Having experience in managing both long and short horizon portfolios, he should also have a thorough understanding and anticipation of trends in currencies and interest rates as well as a sound knowledge of major stock markets.

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The successful candidate will have:

- * sound practical, technical and legal knowledge of L/C and Bills operations;
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- * providing technical expertise to lending officers;
- * marketing the trade finance product; and
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- Japanese-speaking TRAINEES;
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Remuneration will be commensurate with experience augmented by a bonus and normal company benefits one would expect from an International Company of our standing.

Please write with full curriculum vitae, inclusive of present salary, to:

Gary N. Wayne, Director
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Ormond House, 63 Queen Victoria Street
London EC4N 4ST

Credit Management

An exciting opportunity exists for senior credit executives to fully utilise their abilities and experience within a new environment.

Our client seeks executives who can demonstrate an exceptional level of progress within their current workplace, particularly in relation to management skills, the attainment of specific targets and an ability to motivate staff. In addition, effective communication, particularly by means of written reports, is essential. It is probable that applicants meeting the above mentioned requirements will be aged between 30 - 40.

Candidates must have a high degree of mobility generally within the United Kingdom. The successful candidate will report directly to a Director of our client's Company.

The positions demanding nature will attract a substantial remuneration package. All C.V.s will be dealt with in strictest confidence through Box No. A0616.

Financial Times, 10 Cannon Street, London EC4P 4BY

Bond Sales Assistant

Native Japanese Speaker

We urgently need a bi-lingual Japanese-English speaker to assist in the sale of fixed rate Eurobonds to Japanese investors in Europe. Applicants must be able to communicate fluently in both English and Japanese and have the ability to work effectively in a fast-moving and dynamic environment. Some experience of working in the Bond markets is desirable but not essential.

We offer an attractive salary and a competitive benefit package.

Please apply in writing with a c.v. to Sarah Kelly, Personnel Department, Kleinwort Benson Group, 20 Fenchurch Street, London EC3P 3DB.

Kleinwort Benson Group

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COMMODITIES AND AGRICULTURE

Exporters rush for Brazilian coffee

By Rik Turner in Sao Paulo

THE BRAZILIAN Coffee Institute (IBC) yesterday closed coffee export registrations for September shipments, less than 24 hours after opening them. A total of 2,450 bags (60 kg each) was registered for the month.

Registrations, which also began on Monday, amounted to 1,280 bags, and remains open.

Exporters thus repeated their May performance, when 2,600 bags were registered in one day for export in June. So much of that exceptionally large allocation remained to be shipped at the end of the month, however, that the institute decided not to open registrations for July.

The rush to register large quantities of coffee for export each month reflects the bumper crop Brazil is harvesting this year—estimated at about 35.2m bags.

Whenever such a situation occurs, the institute always runs the risk of having to extend the registrations into the following month, upsetting its accounting and jeopardising its export target for the year.

The institute took steps this month to avoid a repetition of the June situation, or at least to ensure that volumes registered for export would eventually be exported, rather than cancelled next month as frequently happens during a bumper crop.

From now on, exporters not honouring export commitments will lose 50 per cent of the contribution quota, an export tax levied by the institute and paid three days after registration. The tax was increased last week from 27 per cent to 38 per cent.

Coffee producers must continue working to forge a unified position on export quotas, International Coffee Organisation (ICO) delegates agreed in London. But they agreed that this week's ICO executive board meeting is not the appropriate forum for such talks, Reuters reports.

Producers will convene a meeting among themselves to come up with a common proposal by the time the full ICO council meeting is held in September, Mr. Landsberg, Sette, the Brazilian delegate, said. A full producer meeting is likely to be held in August or early September to hammer out the position.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market, 99.5 per cent, 3 per tonne, in warehouse, 2,190-2,230 (2,250-2,310).

BISMUTH: European free market, 99.9 per cent, 3 per lb, in warehouse, 3,000-3,100 (2,950-3,100).

CADMIUM: European free market, 99.5 per cent, 3 per lb, in warehouse, 1,530-1,550 (same), sticks 1,530-1,550 (same).

COBALT: European free market, 99.5 per cent, 3 per lb, in warehouse, 6,400-6,500 (6,500-6,600).

MERCURY: European free market, 99.9 per cent, 3 per kg, in warehouse, 230-240 (235-245).

MOLYBDENUM: European free market, drummed molybdenum oxide, 2.65 per lb, in warehouse, 2,800-2,850 (same).

SELENIUM: European free market, 99.5 per cent, 3 per lb, in warehouse, 6,400-6,500 (same).

TUNGSTEN ORE: European free market, standard min 65 per cent, 3 per tonne, in warehouse, 4,450-4,550 (same).

VANADIUM: European free market, min 98 per cent V₂O₅, 3 per lb, in warehouse, 2,820-2,870 (2,820-2,870).

URANIUM: Nuxeo export value, 5 per lb U₃O₈, 17,000 (same).

EC payment delays anger British grain traders

By JOHN BUCKLEY

CHANCES OF British cereal exports repeating last season's all-time record of 10.5m tonnes are currently remote and a steep fall is likely if the present bureaucratic inefficiency over EC paperwork continues, according to the Grain and Feed Trade Association.

Gaifa says it is bitterly disappointed over the lack of response from the Ministry of Agriculture to its pleas for action over the much longer wait UK shippers have to endure—compared with their Continental counterparts—before they receive EC export restitutions, which run into many millions of pounds.

These have been held up at the British Intervention Board, which itself blames staff problems and a transition to computerisation.

The delay reduced the value of deal struck by some shippers last season by up to £1.60 per tonne. With no clear idea of how long they will have to wait for payment this year, many of the traders who placed last season's record sales are now finding it almost impossible to price grain and are becoming reluctant to book new crop export business. This, Gaifa believes, is threatening farmers' incomes by depressing prices and—ironically—will almost certainly land a fat and unnecessary bill in the Government's lap for storage as grain floods again into intervention.

Ms Maria Cappuccino, a Gaifa official points out that farmers benefited enormously from last season's high level of exports which helped cut intervention stocks to around 3.3m tonnes at

the start of this season. In 1984/85, she points out, stocks hit an all time high of 4m tonnes and actually forced the Chancellor of the Exchequer to adjust the PSBR by £150m to take into account increased capital storage and interest costs for taking grain into intervention.

"It could all so easily happen again," says Ms Cappuccino, who suggests: "If exporters were to allow for a payment delay (based on last season's experience) of 42 to 113 days the price to the farmer would be unacceptable. They would have no choice but to go to the 'market of last resort' which is intervention."

British exporters are also worried about the EC Commission's export policy in general. Despite the cut-throat competition on world markets no clear plan has yet emerged for the 1987-88 campaign, whereas this time last year, many millions of tonnes had already been booked. But the Commission is apparently continuing with a policy that favours milling wheat by imposing a 10 European currency unit a tonne corrective on feed wheat that also penalises UK grain. Bearing in mind French quality advantages and a more efficient system that keeps their export rebate payment delay down to 15 days, it is hard to see how Britain can export, Ms Cappuccino said.

Gaifa says the UK Government—consistent with its obligations to reduce budgetary expenditure and return intervention to its proper role of safety net—should guarantee

payments for 1987-88 will be made to the trade within the official 22 day target period. Better still it should also seize the opportunity created by Brussels' decision to allow payment in arrears rather than in advance. "This means national exchanges will be responsible for payment in the first instance for their respective intervention Boards and provides an incentive for the new computerised IBAP to match French exporters' payment delay advantage," says Ms Cappuccino. "The Government should insist that the 10 EC penalty is dropped to enable a single rebate throughout the Community and press the Commission to get its new season's export programme into gear as quickly as possible, Gaifa believes.

Unless the Government acts on these recommendations, the Treasury will have to dig deep into its coffers as another record UK harvest is underway says Ms Cappuccino who hopes the Government will respond to its response to an earlier plea that it bridge the loss of interest shippers suffered on late 1986/87 export payments. "We believe the Government should honour its obligations, accept the service its agents (IBAP) provided was at least and acknowledge the huge benefits it has reaped from exporters' success in expanding trade, including balance of payments and reduction in storage costs—not to mention the positive cash flow advantage of sitting on funds to which it was not entitled," Ms Cappuccino concluded.

Canadian harvest seen lower

By ROBERT GIBBINS IN MONTREAL

THE UNITED Grain Growers Co-operative of Winnipeg estimates total prairie crop output for the 1987 crop year ending July 31 will be 42.2m tonnes, down about 18 per cent from the 1986 peak of 51.6m tonnes.

Other crop projections (compared with 1986) are: barley 12.4m tonnes (13.3m); oats 2m tonnes (2.5m); rye 389,000 tonnes (558,000); flaxseed 876,000 tonnes (1m); canola 3.1m tonnes (3.5m).

David Owen, a Gaifa official points out that farmers benefited enormously from last season's high level of exports which helped cut intervention stocks to around 3.3m tonnes at

ted to decline 28 per cent to 33.5m tonnes indicating an average yield of 26.5 bushels per acre, down from 33.9 bushels last year.

Other crop projections (compared with 1986) are: barley 12.4m tonnes (13.3m); oats 2m tonnes (2.5m); rye 389,000 tonnes (558,000); flaxseed 876,000 tonnes (1m); canola 3.1m tonnes (3.5m).

David Owen, a Gaifa official points out that farmers benefited enormously from last season's high level of exports which helped cut intervention stocks to around 3.3m tonnes at

Wales continues search for 'edible ideas'

By ANTHONY MORETON, WELSH CORRESPONDENT

MID-WALES DEVELOPMENT is to extend its scheme to develop new food products by continuing the Edible Ideas Plan launched last year.

Mr Alun Evans, chairman of Welsh Rural Products Group, said at the Royal Welsh Show in Builth Wells yesterday, that the scheme has been sufficiently successful in its first year to warrant being continued.

The three winners in 1986—Caws Cennarth, Cambrian Lamb Production Foods and Welsh Lamb Products—have been awarded prizes and a meat concern—have been so successful that they have created markets not just in Wales but throughout the UK.

Mr Evans, a Government appointed board member to improve the economy of the area, has put considerable effort behind a drive to develop food concerns in the small towns of rural Wales.

It sees the industry as a catalyst to create jobs, stimulate the farming industry and help to prevent the rural depopulation that has affected the area for much of this century.

Earlier Mr John Norris, president of the Country Landowners Association, said Britain's farmers faced a crisis of £500m a year in their income.

Such a drop was "demoralising, and he called on Mr John MacGregor, the Minister of Agriculture, to invite landowners to help solve the coming crisis in Britain's agriculture.

"The farming industry did not get the country into this predicament," he said. "Yet Government has washed its hands of it."

"Ministers are appointed to take the responsibilities of office, and they must find the solution."

Official figures show imports

Drought hits Philippines coconut output

By ANTHONY MORETON, WELSH CORRESPONDENT

PHILIPPINES COCONUT production is expected to drop 22.2m tonnes in 1987, a 15.3 per cent drop from the 1986 output of 2.63m tonnes, because of a drought in producing areas, Reuters reports.

The United Coconut Association of the Philippines, a private-sector organisation, said in a report that production in 1988, when the full effects of this year's drought are likely to emerge, is projected to fall further to 2m tonnes. Rainfall was expected to be about 20 per cent below normal levels this year.

UCAP said 1987 export estimates had been revised downward to 1.4m tonnes from 1.6m tonnes, because of a drought in producing areas, Reuters reports.

However, export revenue estimates for 1987, based on improved world prices, had been revised upward to \$600m from \$538.5m, the report said.

Copra exports are projected to total 130,000 tonnes, down from 138,000 tonnes last year, but copra is expected to fetch an average price of \$232 per tonne, 66.9 per cent higher than the 1986 level of \$139 per tonne.

Coconut oil exports are projected to drop 20.4 per cent to 129m tonnes last year, but earnings are projected to rise to \$348.3m from \$334.8m

in the first half of this year to \$621.8m, up from \$387.7m in the year-earlier period, against 152,151 tonnes in 1986 and 113,375 tonnes in all 1985.

Many provinces with textile industries have sent buyers abroad to purchase foreign wool, which is cheaper, better quality and easier to wash than local wool, the paper said.

Official figures show imports

Brazil to dispense castor oil

By RIK TURNER IN SAO PAULO

World production of castor has been on the wane for the last two years—because of bad weather and depressed world prices (around \$500-\$600 a tonne), Brazilian traders say. They blame that price depression on 1985's bumper crops and a consequent carry-over of some 40,000 tonnes of Indian oil.

Brazil's total 1987 bean production is not expected to exceed 160,000 tonnes, compared with 260,000 tonnes last year and a bumper 450,000 tonnes in 1985. The country's traders estimate that this year's total planted area is about one third of 1985's.

Since the bean/oil yield in Brazil is about 45 per cent, this year's crop, harvesting of which begins this month, should produce some 72,000 tonnes of oil, so that the country will be exporting out of stocks to maintain its normal overseas volume of 135,000-140,000 tonnes out of annual world im-

ports of about 310,000 tonnes. Beans, which normally accounts for another 60,000 tonnes, is virtually out of the market at present because of a government pricing structure that keeps the domestic price tied to the prices of other edible oils in an attempt to stimulate their production.

"They keep their domestic price for peanut oil at \$1,900 a tonne, and their soyabean oil price at \$800, so if they don't charge at least 1,100 to 1,200 a tonne for castor oil, they have people adulterating it into edible oils in the interior," said a Brazilian trade observer.

The Indian crop has dwindled from the bumper 1985 level of 550,000 tonnes (when the country exported some 100,000 tonnes of oil) to last year's 320,000 tonnes (with oil exports of 45,000 tonnes). "This year they haven't even got oil to export to Russia, their partner in barter

trade deals," commented one trader. India's export capacity is of course conditioned by its domestic consumption of oil, which hovers around the 120,000 tonnes a year mark, compared with 15,000 tonnes a year in Brazil.

Furthermore, while the Brazilian crop starts in July, India's begins in December, so that any availability that country may have will not be until the first quarter of 1988. Traders expect the tight supply situation to remain till then.

Assuming that Brazil does indeed export between 125,000 and 140,000 tonnes this year, traders predict an improvement of some 35 per cent in earnings on these sales. They expect a total export revenue of \$100m for the sector this year, compared to just \$75m earned on the same volume exported in 1986. This in turn can be expected to attract farmers back to castor in future years.

MARKETS LONDON

NICKEL prices on the London Metal Exchange fell back sharply yesterday in what dealers described as an overdue correction following the recent strong rise. The cash position, which had previously staged a seven-day advance amounting to over £220 a tonne, ended the day £22.50 lower at \$2,998, despite being supported by West German buying late in the day. Early on the nickel market had been characterised by aggressive merchant and commission house selling, traders said. A further encouragement was given to the bears by the breach of the \$2,200 level, where chart-based support had been anticipated. Coffee prices came under renewed pressure yesterday. In light trading and against a basically bearish background sentiment news of record Brazilian export registrations for August and September shipments was enough to push the September futures quotation £22 lower at \$1,224.50 a tonne. A fall in September cocoa to \$1,345.50 a tonne was attributed by dealers chiefly to "stirred long liquidation" and profit-taking. Lower sterling against the dollar and reports of dry West African weather steadied the market near the close, however.

LME prices supplied by Amalgamated Metal Trading.

Official closing (am): Cash 1,029.30 (1,044.4), three months 1,029.30 (1,044.4), settlement 1,029.30 (1,044.4). Final Kib close: 984.45. Ring Turnover: 15,200 tonnes.

Official closing (am): Cash 1,029.30 (1,044.4), three months 1,029.30 (1,044.4), settlement 1,029.30 (1,044.4). Final Kib close: 984.45. Ring Turnover: 15,200 tonnes.

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INDICES

REUTERS
July 20/21 17:00H Age Yearago
1689.4 (1689.4) 1602.5 (1481.4)
(Base: September 18 1981=100)

DOW JONES
July 20/21 17:00H Age Yearago
1000.0 (1000.0) 1000.0 (1000.0)
(Base: December 31 1981=10

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar shows little change

THE DOLLAR showed little overall change in currency markets yesterday. Earlier in the day trading had been subdued because speculators were anxious not to push the dollar much further since its approach to a key level of 160.00 suggested a growing likelihood of central bank intervention.

In addition there was little percentage in opening fresh positions ahead of testimony by Mr Paul Volcker, retiring chairman of the US Federal Reserve Board, to the US House of Representatives and a speech by his successor Mr Alan Greenspan in front of the Senate.

Comments by both of these were insufficient to move the market and speculators were already looking towards Friday's release of US second quarter GNP figures.

The dollar closed at DM1.8655 from DM1.8620 and ¥152.70 compared with ¥152.80. Elsewhere it finished at Sfr1.5480, from Sfr1.5505 and FFfr2.2025 compared with FFfr2.1850. On Bank of England figures, the dollar's exchange rate index finished at 102.9 unchanged from Monday.

STERLING — Trading range against the dollar in 1987 is 1.6855 to 1.4710. June average 1.6288. Exchange rate index 72.8 against 72.5 at the opening and 72.9 on Monday.

The pound recovered from a weaker start. The latter was prompted by disappointment over Monday's money supply figures which highlighted the possibility of a rise in inflation and this discouraged foreign investors.

The pound closed at \$1.5900 from \$1.6020. Against the D-Mark it was lower at DM2.9775 from

2 IN NEW YORK

July 21	July 20	Previous
Spot	1.6255-1.6260	1.6260-1.6265
1 month	0.32-0.31	0.32-0.31
3 months	0.32-0.31	0.32-0.31
6 months	0.32-0.31	0.32-0.31

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

July 21	July 20	Previous
5.00	72.8	72.5
10.00	72.8	72.5
15.00	72.8	72.5
20.00	72.8	72.5
25.00	72.8	72.5
30.00	72.8	72.5
35.00	72.8	72.5
40.00	72.8	72.5

CURRENCY RATES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

CURRENCY MOVEMENTS

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

OTHER CURRENCIES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

OTHER CURRENCIES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

OTHER CURRENCIES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

OTHER CURRENCIES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
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OTHER CURRENCIES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
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July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
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OTHER CURRENCIES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
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US dollar	0.6794	0.6794	0.6794

OTHER CURRENCIES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

OTHER CURRENCIES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

DM2.9825 and ¥243.75 against ¥244.75. Elsewhere it slipped to Sfr2.47 from Sfr2.4650 and FFfr2.90 against FFfr2.9250.

Dealers were unsure about how the pound was likely to perform. The authorities were probably keen to keep it below DM2.0 but central bank intervention to achieve this would exacerbate an already expanding money supply.

D-MARK — Trading range against the dollar in 1987 is 1.8065 to 1.7850. June average 1.8196. Exchange rate index 146.3 against 146.3 six months ago.

Trading in the afternoon was little different from the cautious anticipation earlier in the day ahead of statements by Mr Volcker and Mr Greenspan. Mr Volcker's comments about the dangers of inflation were exactly in line with market expectations and as a consequence the dollar finished at DM 1.8605 against DM 1.8615 on Monday.

Earlier in the day the dollar was fixed at DM 1.8600 from DM 1.8617 and there was no intervention by the Bundesbank.

JAPANESE — Trading range against the dollar in 1987 is 152.80 to 152.85. June average 152.80. Exchange rate index 211.2 against 211.2 six months ago.

Trading was subdued in Tokyo and the dollar was confined to a narrow range. It finished a little easier at ¥152.70 compared with ¥152.70 in New York and ¥152.80 in Tokyo on Monday. While the US unit retained its bullish undertone, there was a marked reluctance to push it much further just yet for fear of central bank intervention.

In addition some speculators were acting with caution ahead of testimonies given by Mr Paul Volcker and Mr Alan Greenspan. Underlying sentiment was supported by firm oil prices and the possibility of rising tension in the Middle East.

EMU EUROPEAN CURRENCY UNIT RATES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

POUND SPOT - FORWARD AGAINST THE POUND

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

EURO-CURRENCY INTEREST RATES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

EXCHANGE CROSS RATES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

FT LONDON INTERBANK FOILING

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

NEW YORK (Lunchtime)

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

LONDON MONEY RATES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

NEW YORK (Lunchtime)

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

LONDON MONEY RATES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

NEW YORK (Lunchtime)

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

LONDON MONEY RATES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

NEW YORK (Lunchtime)

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

LONDON MONEY RATES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

NEW YORK (Lunchtime)

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

FINANCIAL FUTURES

Gilts and bonds lose ground

After falling to a low of 122.16 the September contract recovered back to 122.25, and rose to a peak of 122.94, before closing at 122.88, compared with 122.00 on Monday.

The market saw a downward support level of 121.25, but there was no impact from yesterday's lower trend in oil prices. On the other hand there may be a test of support today if the May UK trade figures disappoint.

The market is looking for a trade deficit of about \$600m, and a current account roughly in balance.

US Treasury bonds for September delivery opened weak at 91.07, after a fall by the dollar, but rose to around 91.12, ahead of test-

money by Mr Alan Greenspan and Mr Paul Volcker, the incoming and outgoing chairmen of the Federal Reserve Board, before Congress. The contract fell to 91.00, but then recovered on the comments by Mr Greenspan, suggesting little change in monetary policy.

It rallied to a peak of 91.15, and closed at 91.14, compared with 91.23 previously.

Japanese Government bonds began on a firm note, after the authorities in Tokyo denied rumours about a rise in the Japanese prime rate. September delivery opened at 107.50, but fell on Mr Greenspan's testimony, to close at 106.87, against 106.05

LONG TERM GILT FUTURES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794	0.6794	0.6794

LONG TERM GILT FUTURES

July 21	Bank	Special	European
US dollar	0.6794	0.6794	0.6794
US dollar	0.6794		

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY JULY 21 1987				MONDAY JULY 20 1987				DOLLAR INDEX		
	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year Ago (approx)	
Australia (194)	147.45	+0.2	136.98	138.38	147.19	136.22	138.77	148.14	99.92	76.25	
Austria (16)	100.43	+3.7	93.48	97.18	100.43	97.02	99.79	101.62	85.53	87.38	
Belgium (48)	125.69	+0.1	116.76	119.80	125.53	116.17	119.80	126.72	96.19	81.83	
Canada (132)	127.00	-0.9	127.27	131.05	127.23	127.92	131.97	136.59	100.00	95.48	
France (121)	112.57	-0.3	104.57	102.56	112.56	104.54	102.56	124.10	98.18	93.77	
Germany (92)	105.42	-1.1	97.92	102.56	105.42	98.49	102.56	122.82	98.39	95.14	
Italy (76)	98.47	-0.7	91.47	95.50	98.47	91.78	95.50	100.33	84.00	77.70	
Japan (458)	124.13	-0.9	124.40	124.45	124.13	124.27	124.45	136.36	96.89	71.41	
Netherlands (38)	129.44	+0.1	129.44	131.71	129.44	131.71	131.71	145.43	99.24	89.79	
New Zealand (2)	90.27	-0.4	90.27	97.83	90.27	90.21	97.83	112.11	93.47	84.47	
Spain (458)	125.51	+0.4	116.59	121.15	125.51	117.58	121.15	141.28	100.00	87.98	
Sweden (33)	128.29	+0.4	128.29	131.71	128.29	131.71	131.71	145.43	99.24	89.79	
Switzerland (23)	125.48	-0.1	125.48	131.71	125.48	131.71	131.71	145.43	99.24	89.79	
United Kingdom (336)	125.95	-0.9	144.87	144.87	125.95	144.87	144.87	162.87	99.65	94.13	
USA (911)	125.94	-0.9	116.99	125.94	125.94	116.99	125.94	136.24	100.00	99.70	
Europe (933)	125.43	-0.7	116.92	119.45	125.43	116.92	119.45	136.36	99.78	87.03	
Pacific Basin (286)	125.43	-0.7	116.92	119.45	125.43	116.92	119.45	136.36	99.78	87.03	
Asia-Pacific (1617)	125.43	-0.7	116.92	119.45	125.43	116.92	119.45	136.36	99.78	87.03	
North America (725)	125.43	-0.7	116.92	119.45	125.43	116.92	119.45	136.36	99.78	87.03	
Europe Ex. UK (597)	125.43	-0.7	116.92	119.45	125.43	116.92	119.45	136.36	99.78	87.03	
Pacific Ex. Japan (226)	125.43	-0.7	116.92	119.45	125.43	116.92	119.45	136.36	99.78	87.03	
World Ex. US (1826)	125.43	-0.7	116.92	119.45	125.43	116.92	119.45	136.36	99.78	87.03	
World Ex. UK (2081)	125.43	-0.7	116.92	119.45	125.43	116.92	119.45	136.36	99.78	87.03	
World Ex. Japan (1959)	125.43	-0.7	116.92	119.45	125.43	116.92	119.45	136.36	99.78	87.03	
The World Index (2417)	125.73	-0.9	117.72	125.51	125.73	117.72	125.51	136.36	100.00	92.02	

Base value: Dec 31, 1986 = 100
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Belgian markets closed for public holiday.
Corrected indices for July 20: United Kingdom, Europe, Europe-Pacific and World Ex Japan.

EUROPEAN OPTIONS EXCHANGE

Series	Aug 87			Nov 87			Feb 88			Stock
	Vol.	Last	Low	Vol.	Last	Low	Vol.	Last	Low	
GOLD C	\$400	6	56	48	62.50					\$892.30
GOLD P	\$440	136	6.50	19	20	3	32			"
GOLD Q	\$450	10	1.00	1	15					"
GOLD R	\$500	110	1.50	14	8	78	17			"
GOLD S	\$520			8	2.00					"
GOLD T	\$420			8	3.80					"
GOLD P	\$430			15	7.50					"
<hr/>										
Aug 87										
D/FI C								Oct 87		
D/FI P	P1.335			10	4.30					P1.335.87
<hr/>										
Dec 87										
S/FI C	P1.340			10	2.50			Jan 87		P1.335.87
<hr/>										
Aug 87										
S/FI C	P1.200			13	4.87			Oct 87		
S/FI P	P1.205	35	4.70	16	1.40					P1.209.43
S/FI C	P1.205	35	4.70	16	1.40					
S/FI P	P1.210	5	0.30	5	2					
S/FI C	P1.215	60	0.70	5	2			1	2.80	
<hr/>										
Dec 87										
S/FI C	P1.190			10	88			June 88		
S/FI P	P1.195			10	9.50					P1.209.43
S/FI C	P1.195			10	9.50			19	14.70	
S/FI P	P1.210	5	1.20	27	1.50					
S/FI C	P1.210	5	1.20	27	1.50					
S/FI P	P1.215	10	0.80	17	4.20					
S/FI C	P1.215	10	0.80	17	4.20					
S/FI P	P1.190	10	2.50	20	2.50					
S/FI C	P1.190	10	2.50	20	2.50					
<hr/>										
Oct 87										
ABM C	P1.480	428	23.40	10	3.35					P1.493
ABM P	P1.480	12	1.80	15	14.00			20		
AECON C	P1.55	13	1.00	10	9.90					P1.96.90
AECON P	P1.55	13	1.00	10	9.90					
AMCO C	P1.130	11	5.50	10	6.50					P1.108.20
AMCO P	P1.130	24	4.70	7	5					
AMCO C	P1.130	207	2.50	5	4					
AMCO P	P1.130	46	2.00	5	4					
AMCO C	P1.130	790	6.30	60	9.50					P1.168.70
AMCO P	P1.170	373	2.00	10	10.00			11	13	
AMCO C	P1.170	464	2.50	85	4.00					P1.168.70
AMCO P	P1.170	464	2.50	85	4.00			2	3.80	
AMCO C	P1.170	464	2.50	85	4.00					
AMCO P	P1.170	464	2.50	85	4.00					
AMCO C	P1.170	464	2.50	85	4.00					
AMCO P	P1.170	464	2.50	85	4.00					
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LONDON SHARE SERVICE

BRITISH FUNDS						BRITISH FUNDS—Contd						FOREIGN BONDS & RAILS					
1967	Stock	Price	% ch	Yield		1967	Stock	Price	% ch	Yield		1967	Stock	Price	% ch	Yield	
High	Low					High	Low					High	Low				
"Sisters" (Flows up to Five Years)																	
1012	1967	12/12	100	11.00	9.00												
1013	1967	12/12	100	11.00	9.00												
1014	1967	12/12	100	11.00	9.00												
1015	1967	12/12	100	11.00	9.00												
1016	1967	12/12	100	11.00	9.00												
1017	1967	12/12	100	11.00	9.00												
1018	1967	12/12	100	11.00	9.00												
1019	1967	12/12	100	11.00	9.00												
1020	1967	12/12	100	11.00	9.00												
1021	1967	12/12	100	11.00	9.00												
1022	1967	12/12	100	11.00	9.00												
1023	1967	12/12	100	11.00	9.00												
1024	1967	12/12	100	11.00	9.00												
1025	1967	12/12	100	11.00	9.00												
1026	1967	12/12	100	11.00	9.00												
1027	1967	12/12	100	11.00	9.00												
1028	1967	12/12	100	11.00	9.00												
1029	1967	12/12	100	11.00	9.00												
1030	1967	12/12	100	11.00	9.00												
1031	1967	12/12	100	11.00	9.00												
1032	1967	12/12	100	11.00	9.00												
1033	1967	12/12	100	11.00	9.00												
1034	1967	12/12	100	11.00	9.00												
1035	1967	12/12	100	11.00	9.00												
1036	1967	12/12	100	11.00	9.00												
1037	1967	12/12	100	11.00	9.00												
1038	1967	12/12	100	11.00	9.00												
1039	1967	12/12	100	11.00	9.00												
1040	1967	12/12	100	11.00	9.00												
1041	1967	12/12	100	11.00	9.00												
1042	1967	12/12	100	11.00	9.00												
1043	1967	12/12	100	11.00	9.00												
1044	1967	12/12	100	11.00	9.00												
1045	1967	12/12	100	11.00	9.00												
1046	1967	12/12	100	11.00	9.00												
1047	1967	12/12	100	11.00	9.00												
1048	1967	12/12	100	11.00	9.00												
1049	1967	12/12	100	11.00	9.00												
1050	1967	12/12	100	11.00	9.00												
1051	1967	12/12	100	11.00	9.00												
1052	1967	12/12	100	11.00	9.00												
1053	1967	12/12	100	11.00	9.00												
1054	1967	12/12	100	11.00	9.00												
1055	1967	12/12	100	11.00	9.00												
1056	1967	12/12	100	11.00	9.00												
1057	1967	12/12	100	11.00	9.00												
1058	1967	12/12	100	11.00	9.00												
1059	1967	12/12	100	11.00	9.00												
1060	1967	12/12	100	11.00	9.00												
1061	1967	12/12	100	11.00	9.00												
1062	1967	12/12	100	11.00	9.00												
1063	1967	12/12	100	11.00	9.00												
1064	1967	12/12	100	11.00	9.00												
1065	1967	12/12	100	11.00	9.00												
1066	1967	12/12	100	11.00	9.00												
1067	1967	12/12	100	11.00	9.00												
1068	1967	12/12	100	11.00	9.00												
1069	1967	12/12	100	11.00	9.00												
1070	1967	12/12	100	11.00	9.00												
1071	1967	12/12	100	11.00	9.00												
1072	1967	12/12	100	11.00	9.00												
1073	1967	12/12	100	11.00	9.00												
1074	1967	12/12	100	11.00	9.00												
1075	1967	12/12	100	11.00	9.00												
1076	1967	12/12	100	11.00	9.00												
1077	1967	12/12	100	11.00	9.00												
1078	1967	12/12	100	11.00	9.00												
1079	1967	12/12	100	11.00	9.00												
1080	1967	12/12	100	11.00	9.00												
1081	1967	12/12	100	11.00	9.00												
1082	1967	12/12	100	11.00	9.00												
1083	1967	12/12	100	11.00	9.00												

Money Market Bank Accounts

	GrpSA	GrpLan	GrpLond
ANE Flanagan High Interest			
Flanagan High Interest	0.00	0.00	0.25
Flanagan High Interest	0.00	0.00	0.25
Flanagan High Interest	0.00	0.00	0.25
Adam & Co. plc			
22 Charlotte Sq, London EC1Z 4DF	0.00	0.00	0.25
Fair Lane	0.00	0.00	0.25
Allen Hume			
30 City Road, EC1Y 2AY	0.00	0.00	0.25
Trinity House, 100 Broad St	0.00	0.00	0.25
AAB—Allied Air Bank Ltd			
77, 101 Cannon St, London, EC4N 3AP	0.00	0.00	0.25
101 Cannon St, London, EC4N 3AP	0.00	0.00	0.25
Bank of Scotland			
30 Threadneedle St, EC2H 2PH	0.00	0.00	0.25
30 Threadneedle St, London, EC2H 2PH	0.00	0.00	0.25
Barclays Prime Account			
PO Box 125, Northampton	0.00	0.00	0.25
PO Box 125, Northampton	0.00	0.00	0.25
Bankmark Trust Ltd Premier Account			
Wentworth Place, W1M 4AG	0.00	0.00	0.25
Wentworth Place, W1M 4AG	0.00	0.00	0.25
Brown Shipley & Co Ltd			
Founders Court, Leathers, London E2 6JH	0.00	0.00	0.25
Founders Court, Leathers, London E2 6JH	0.00	0.00	0.25
Chertchester Bank Limited			
1 Palace Road, EC1A 7DP	0.00	0.00	0.25
1 Palace Road, EC1A 7DP	0.00	0.00	0.25

Money Market Trust Funds

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INDUSTRIALS—Continued

[illegible][illegible]

163	212	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
164	213	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
165	214	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
166	215	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
167	216	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
168	217	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
169	218	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
170	219	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
171	220	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
172	221	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
173	222	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
174	223	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
175	224	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
176	225	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
177	226	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
178	227	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
179	228	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
180	229	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
181	230	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
182	231	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
183	232	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
184	233	Dr. Wazmans	676	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30

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A selection of Options traded is given on the
London Stock Exchange Report Page.

23

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Year	per share	1.39	1.40	per share	1.40
1994	1.39		1.40		
1995	1.39		1.40		
1996	1.39		1.40		
1997	1.39		1.40		
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2008	1.39		1.40		
2009	1.39		1.40		
2010	1.39		1.40		
2011	1.39		1.40		
2012	1.39		1.40		
2013	1.39		1.40		
2014	1.39		1.40		
2015	1.39		1.40		
2016	1.39		1.40		
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2018	1.39		1.40		
2019	1.39		1.40		
2020	1.39		1.40		
2021	1.39		1.40		
2022	1.39		1.40		
2023	1.39		1.40		
2024	1.39		1.40		
2025	1.39		1.40		
2026	1.39		1.40		
2027	1.39		1.40		
2028	1.39		1.40		
2029	1.39		1.40		
2030	1.39		1.40		
2031	1.39		1.40		
2032	1.39		1.40		
2033	1.39		1.40		
2034	1.39		1.40		
2035	1.39		1.40		
2036	1.39		1.40		
2037	1.39		1.40		
2038	1.39		1.40		
2039	1.39		1.40		
2040	1.39		1.40		
2041	1.39		1.40		
2042	1.39		1.40		
2043	1.39		1.40		
2044	1.39		1.40		
2045	1.39		1.40		
2046	1.39		1.40		
2047	1.39		1.40		
2048	1.39		1.40		
2049	1.39		1.40		
2050	1.39		1.40		
2051	1.39		1.40		
2052	1.39		1.40		
2053	1.39		1.40		
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2056	1.39		1.40		
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2058	1.39		1.40		
2059	1.39		1.40		
2060	1.39		1.40		
2061	1.39		1.40		
2062	1.39		1.40		
2063	1.39		1.40		
2064	1.39		1.40		
2065	1.39		1.40		
2066	1.39		1.40		
2067	1.39		1.40		
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2069	1.39		1.40		
2070	1.39		1.40		
2071	1				

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NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

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AMEX COMPOSITE CLOSING PRICES

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— Europe's Business Newspaper —
London • Frankfurt • New York

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FINANCIAL TIMES

WORLD STOCK MARKETS

Inflation rate worries spark downturn

WALL STREET

UPSET by rumours of a big jump in the inflation rate, Wall Street stock prices fell sharply yesterday in moderately heavy trading, writes Roderick Oram in New York.

Stocks followed bonds lower on fears that June's consumer price index, due to be released this morning, will be up far more from May than the 0.4 per cent previously forecast. Bond prices fell more than a point in late afternoon.

Congressional testimony by Mr Paul Volcker, retiring chairman of the Federal Reserve, and Mr Alan Greenspan, his nominated successor, appeared to have little impact on the markets. Mr Greenspan said the Fed's current policies were "essentially on target."

The Dow Jones industrial average closed down 19.77 points at 2,467.95.

The main part of the fall came late in the session with the index losing up to 36 points, driven in part by sell programmes linked to falling stock index futures.

Broader market indices followed the Dow's lead. The Standard & Poor's 500 closed down 2.84 at 308.55 and the New York Stock Exchange composite index lost 1.49 to 173.59. NYSE volume was 186.4m with the number of declining shares outpacing those rising by a margin of more than two-to-one for the second day running.

Despite the generally lower tone, good second-quarter results continued to add buoyancy to some stock prices with a number of companies exceeding analysts' expectations. Chrysler's profits, for example, dipped only to \$2 a share from \$2.19 which helped push its shares up 5% to \$38. Capital cities-ABC turned in quarterly net profits of \$3.88 a share at the top end of forecasts against \$4.15. Its shares gained 5.1% to \$40.85.

Texas Air rose 5% to \$33.4 and was the second most active American stock exchange issue with nearly 1m shares traded. The largest airline holding company in the US reported a loss of \$7m for the quarter, reflecting continuing problems consolidating airlines it has acquired.

More banks hit by heavy additions to loan loss reserves reported large losses as forecast. Citicorp rose 5% to \$39.4 and Wells Fargo

added 5% to \$53.4 while Bankers Trust fell 1% to \$47.4.

American Express gained 1% to \$33.4 after banking losses were almost offset by good profits from its traditional travel related services and sale of a stake in Shearson Lehman Brothers, the Wall Street investment dealer.

Henley Group rose 1% to \$29.4. It is seeking permission to increase its stake in Santa Fe Southern to 25 per cent from 5 per cent. It also announced a buy-back of 25m of its own shares at \$28 each. Santa Fe, which also reported higher profits, was up 2% to \$53.4.

Elsewhere in the takeover arena, Corning Glass Works jumped 3% to \$68 on rumours General Electric, up 5% to \$55.4, was considering a bid.

Among other companies reporting higher earnings, Kraft fell 1% to \$55.4, Monsanto lost 5% to \$88.4, McDonald's added 5% to \$52.4, Waste Management rose 5% to \$43.4, Marsh and McLennan fell 5% to \$81.4 and Scott Paper slipped 5% to \$35.

Armco, the steelmaker, fell 5% to \$13 despite returning to a profit of \$37m in the quarter from a year earlier loss of \$385m.

Amdahl dropped 5% to \$38 after reporting a surge in profits to \$50m from \$5m a year earlier. Other computer makers were also weaker. IBM fell 1% to \$182.4, Digital Equipment was down 5% to \$105, Unisys lost 5% to \$128, Cray Research was down 5% to \$98.4, and Hewlett-Packard fell 1% to \$60.4.

Several drug companies turned in better profits but suffered price falls. Squibb lost 5% to \$88.4.

CANADA

VICTORIES by the New Democratic Party in three federal by-elections helped depress Toronto share prices in active trade.

Among the losers, Cominco gave up 3% to \$21.4. Its contract talks are deadlocked with striking miners at British Columbia mines. Most active Nova Scotia class A also fell back by 3% to \$21.4 after rising on good earnings figures. Northern Telecom added 3% to \$22.4. It said its first-half profits had risen and predicted better figures for the second half.

Montreal and Vancouver both fell.

SOUTH AFRICA

STRONG selective buying pushed Johannesburg share prices to further record levels as gold advanced on the stronger bullion price.

The all gold index rose 50 to a new peak of 2,349, surpassing its previous record of 2,316 set on April 27. The industrial index, up 25 to 2,105, and the composite indicator, up 92 to 2,386, both broke Monday's records.

Van Hees added 84 to R487 and Randfontein R16 to R433 among leading golds. Diamond De Beers also added 90 cents to a year's high of R47.15 despite the breakdown of wage talks with workers at four mines.

Rustenburg Platinum rose R1 to R61 to set its second all-time high in consecutive days.

Mining houses joined the surge.

Judy Dempsey on a dramatic month for Austrian share values

Foreigners give Vienna a whirl

THE VIENNA Stock Exchange's 10 biggest quoted companies have seen their share prices rise by between 20 and 40 per cent in the last month in a surge of foreign buying.

The once sleepy Austrian stock exchange awoke in 1985 to outpace every other exchange in the world with a 128 per cent rise in its official index.

After a dull 1986, however, the market had fallen back 18 per cent during the first half of this year. Mr Gerhard Wagner, the bourse's president, said the recent recovery has been caused by a sudden resurgence of interest from foreign investors over the past few days.

Overseas demand has pushed up share prices by 17 per cent in July and by 8 per cent in the last two

days alone. Yesterday the market index closed at 250.50, a rise of 9.14 points, following a further 9.14 rise the previous session.

Turnover in 35 selected shares on Friday hit a record Sch 212.6m (\$16m), more than 11 times the average volume for July 8 to 10. Total dealings between January and June this year reached Sch 6.7bn, a 41 per cent fall on the same period of 1986.

Of the 500 or so Austrian-based companies, 80 now trade on the Vienna bourse.

However, capital increases over the last six months - excluding new issues - are markedly down on the same period last year, standing at Sch 648m compared with Sch 2,785m. The total of capital in-

creases made on the bourse in 1986 was Sch 2,985m. "We hope we can reach this figure but we don't think it will be as high as last year," one bourse official said.

There have been some new issues this year, including that of domestic group Thaler Loden which had a market value of Sch 151m. The bourse also welcomed numerous foreign shares, including Olivetti, Chrysler and VW, each of which issued preference shares.

As the Viennese summer sets in, the bourse's officials are treating the prospects for autumn trading with cautious optimism. During this period the Austrian Government will be pressing ahead with its limited privatisation programme for loss-making state industries.

EUROPE

Profit-taking stalls gains in Frankfurt and Zurich

THE SLIGHT downturn in the dollar and Wall Street's overnight losses took their toll yesterday on European bourses, which mostly closed lower on profit-taking. Trading was generally moderate to slow.

Frankfurt fell back from its gains of the previous two sessions in fairly quiet trading with many institutional investors staying away. Profit-taking hit financials and cars, but opinions were divided about whether the setback was temporary. The Commerzbank index lost 1.12 to 1,958.7.

Deutsche Bank lost DM 8.50 to DM 644.50, Dresdner eased DM 5 to DM 382 and BEF fell DM 11.50 to DM 468 while insurer Allianz was DM 18 lower at DM 1,972.

Cars were easier, amid news from the Federal Motor Office that new car registrations edged up in the first six months. Daimler Benz was down DM 14 at DM 1,180, and BMW lost DM 10.50 to DM 698.50. Porsche, which said it expected lower US sales this year, eased DM 9 to DM 981.

Against the trend, however, electrical AEG gained DM 7.20 to DM 327.40 as rumours persisted about Daimler possibly increasing its 56 per cent stake. In the metals sector, Metallgesellschaft added DM 8 to DM 385, and Preussag edged up 10 pts to DM 198.10.

Bonds finished mixed amid position-squaring and uncertainty over the direction of domestic interest rates. The Bundesbank sold DM 14.4m worth of paper after buying DM 184.1m on Monday.

Zurich also underwent profit-taking as the softer dollar and a weak overnight New York undermined sentiment.

Financials, leading the recent advance, took the brunt. Among banks, UBS lost Sfr 15 to Sfr 4,985 amid news from the company that it expected a satisfactory second half after "favourable" first-half profits.

Credit Suisse fell Sfr 35 to Sfr 3,340 and Swiss Bank Sfr 14 to Sfr 490. But Swiss Volksbank added

LONDON

UNSETTLED by interest-rate worries and the prospect of BP's £1.5m share offering, equities closed lower despite a late rally.

The FT-SE 100 fell 10.2 to 2,390.5 after having fallen 34 at mid-session. The FT Ordinary index lost 17.5 to 1,872.4.

Government bonds steadied from early half-point falls - also on interest-rate worries - as traders closed short positions. Details, Page 40

Sfr 10 to Sfr 3,310 following a "satellite" first half.

Insurers were mixed, with Swiss Re down Sfr 300 to Sfr 17,800 but Winterthur up Sfr 50 to Sfr 6,650.

Amsterdam began lower on Wall Street's overnight weakness but picked up as the dollar stayed steady against the guilder and New York stocks opened more firmly.

The market was also boosted by optimism that first-half results for the major companies, starting next week, will prove healthy.

Internationals were mixed, with Philips off 50 cents at Fl 55.20 and Royal Dutch Fl 1.30 higher at Fl 290.30.

Paris continued easier in moderate trading as short-term interest rates rose and the end of the trading month approached. The CAC general index was down 3.1 at 407.3.

Electronics shares headed the downward trend, with Crouzet losing FF 18 to FF 226. Radiotechnique off FF 17 at FF 1,503 and Thomson-CSF down FF 28 at FF 1,295.

In construction, Bouygues lost FF 23 to FF 1,092 and Lafarge-Coppée shed FF 17 to FF 1,610.

Milan saw a heavy bout of profit-taking following its recent bull run and ended slightly lower. Among blue chips, Pirelli SpA fell L45 to L4,905 and Olivetti L49 to L12,750, but Montedison edged up L1 to L2,530.

ASIA

Fears over money rates, oil and yen prompt fall

TOKYO

SMALL-LOT selling persisted in Tokyo yesterday to drive share prices sharply lower, writes Shigeo Nishitani of Jiji Press.

The Nikkei average of 224 select issues, which suffered its third-highest daily loss of 654.81 points on Monday, slipped below 23,000 at one point before ending 250.26 points lower at 23,078.36. Volume was 440.32m shares compared with Monday's 388.41m. Losers far outnumbered gains by 134 to 194, with 101 issues unchanged.

Investors became increasingly concerned about the rising trend in both interest rates and crude oil prices along with the weaker yen, and Wall Street's overnight fall sent many to the sidelines.

High-technology stocks, notably electricals which performed strongly the previous day, eased on reports that this chip were heavily sold in New York on Monday.

Matsumita Electric Industrial gained Y20 at one point but came under selling pressure later to finish Y20 lower at Y2,380. The issue was the second-busiest with 16.05m shares changing hands. Sony shed Y20 to Y4,200, NEC Y50 to Y1,900 and Hitachi Y10 to Y1,120.

TDK, a lagging stock in the sector however, leapt Y230 to Y4,680, and Sanien Electric ended Y34 higher at Y1,044.

Large-capitalisation stocks were unpopular. Kawasaki Steel and Mitsubishi Heavy Industries each fell Y2 to Y228 and Y345, respectively. Nippon Steel topped the active with 18.20m shares traded and ended Y3 higher at Y303 after briefly losing Y1.

Tokyo Electric Power extended its losing streak, closing Y140 lower at Y3,718. NIT declined Y70,000 to Y2,25m at one point but recouped some of its early loss later to end Y20,000 lower at Y2,3m.

Snow Brand Milk soared Y180 to Y1,600 in lacklustre trading on reports of its full entry into the biotechnology business.

After the close, the Tokyo Stock Exchange announced the relaxation of margin trading restrictions, raising the assessment rate of securities acceptable as collateral for margin trading from 50 per cent to 70 per cent as from Wednesday.

Bond prices moved erratically. The yield on the benchmark 3.1 per cent government bond, maturing in June 1990, opened at 4.730 per cent, up from Monday's 4.653 per cent, on reports that selling by major Japanese government bonds sharply overnight on the London International Financial Futures Exchange.

In mid-morning, however, the yield fell to 4.560 per cent amid growing expectations that the Finance Ministry's Debt Consolidation Fund could purchase long-term government bonds for the third consecutive day to prop up the faltering bond market.

The Debt Consolidation Fund did not, however, carry out the buying operation. This triggered selling pressure again, sending the yield to 4.780 per cent. Later, some major dealers stepped up buying, and the yield on the benchmark issue ended at 4.653 per cent.

SINGAPORE

AFTER a weak start, Singapore picked up on bargain-hunting to finish mixed, with the Straits Times Industrial index off 5.76 at 1,394.26.

There was some nervous selling at the start after trading in First Capital Corporation had been suspended at the company's request, pending an announcement. The company recently successfully placed some \$7m shares.

Most blue chips ended lower although Singapore Airlines added 10 cents to \$314. UOB picked up 15 cents to \$84.90 and OCBC was 10 cents higher at \$810.90.

Among active second-liners, Parkway Holdings was down 4 cents at \$4 on 7.2m shares traded, including a block deal of 7m at \$83.96.

AUSTRALIA

AFTER extending the market's record-breaking gains early in the session, losses on other overseas bourses prompted traders in Sydney to take profits and leave prices easier on the day.

Bell Resources continued active, easing 2 cents to A\$5.16 in trade of 4.5m shares. BHP, also busy, was unchanged at A\$10.50.

Golds and oils eased in defiance of stronger bullion and crude prices. Golds fell back after an early surge, and Elders Resources and Centaur both fell 5 cents to A\$7.70 and A\$2.95, respectively. Whim Creek was 50 cents off at A\$12.50. Santos was off 10 cents at A\$7.70 and Woodside Petroleum 5 cents at A\$2.08.

Industrials followed the trend as Adelaide Steamship fell back 16 cents to A\$8.54, BTR Nylax 20 cents to A\$10.60 and IEL 30 cents to A\$5.20.

CSR slipped 7 cents to A\$3.86. It declared its takeover bid for building materials group Monier closed having acquired just 2.1 per cent of the group.

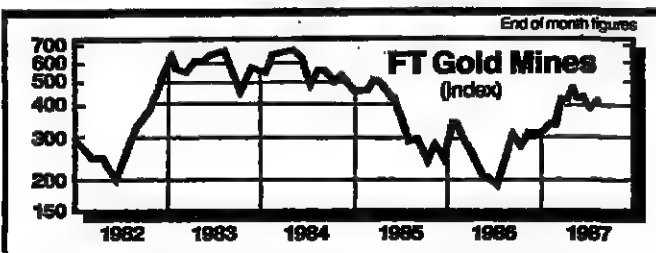
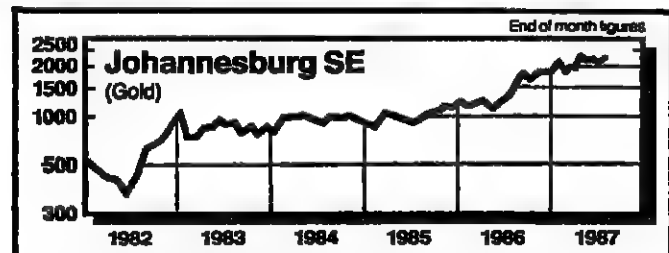
HONG KONG

PROFIT-TAKING depressed Hong Kong share prices during a nervous session made the more jittery by rumours surrounding Mr Li Ka-shing's group of companies. The Hang Seng index lost 2.31 to 3,353.78 after having risen 43.86 the previous session.

Market whippers suggested Cheung Kong and Hutchison Whampoa are both set to raise substantial funds through a share placement and rights issue, respectively, and that Cheung may be set to make a big UK acquisition. The shares were unchanged at HK\$12.50 and HK\$13.40.

Properties suffered worst in the sell-off after Monday's gains. Hang Lung fell 40 cents to HK\$18.80.

KEY MARKET MONITORS



STOCK MARKET INDICES

	July 21	Prev	Year ago
NEW YORK			
DJ Industrials	2,467.95	2,487.72	1,779.11
DJ Transport	1,032.93	1,039.91	720.38
DJ Utilities	200.71	202.10	203.61
S&P Comp.	308.55	311.39	236.24

	July 21	Prev	Year ago
LONDON FT			
Old	1,872.6	1,883.5	1,274.7
SE 100	2,390.5	2,400.7	1,560.2
A All-share	1,212.95	1,215.82	774.48
A 500	1,339.0	1,345.56	848.2
Gold mines	437.1	424.8	189.7
A Long gr	9.18	9.14	9.65
World Act. Ind	127.89	129.83	92.07

	July 21	Prev	Year ago
TOKYO			
Nikkei	23,078.36	23,328.64	17,522.2
Tokyo SE	1,394.26	1,399.21	1,386.63

	July 21	Prev	Year ago
AUSTRALIA			
All Ind.	1,973.3	1,977.7	1,135.4
Metals & Mins.	1,282.2	1,289.1	508.3

	July 21	Prev	Year ago
AUSTRIA			
Credit Anst.	223.22	214.8	234.75

	July 21	Prev	Year ago
BERLIN SE			
(c) 3,657.38			

	July 21	Prev	Year ago
CANADA			
Toronto	3,160.7	3,218.8	1,969.0
Met. & Mins.	3,953.6	3,976.0	2,988.1
Composite	1,987.38	2,007.76	1,485.17

	July 21	Prev	Year ago
DENMARK SE			
(-) 203.81			

	July 21	Prev	Year ago
FRANCE			
CAC Gen	407.50	410.80	368.7
Ind. Tendance	103.40	104.50	86.65

	July 21	Prev	Year ago
WEST GERMANY			
FAZ-Aktien	646.55	650.02	589.12
Commerzbank	1,958.70	1,959.90	1,774.3

	July 21	Prev	Year ago
HONG KONG			
Hang Seng	3,353.78	3,356.08	1,777.73

	July 21	Prev	Year ago
ITALY			
Borsa Comm.	698.49	700.45	694.85

	July 21	Prev	Year ago
NETHERLANDS			
ANP CBS	318.50	320.60	285.4
Gen	289.60	271.00	287.6

	July 21	Prev	Year ago
NORWAY			
Osc. SE	(-) 457.25	449.40	

	July 21	Prev	Year ago
SINGAPORE			
Straits Times	1,394.26	1,399.21	734.18

	July 21	Prev	Year ago
SOUTH AFRICA			
Gold	2,349.50	2,379.00	1,254.4
Industrials	2,069.00	2,071.00	1,219.2

	July 21	Prev	Year ago
SPAIN			
Madrid SE	263.07	264.39	173.20

	July 21	Prev	Year ago
SWEDEN			
J & P	(-) 2,867.80	2,443.31	

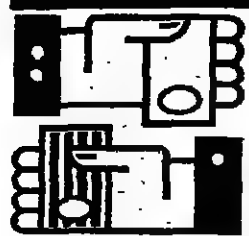
	July 21	Prev	Year ago
SWITZERLAND			
Swiss Bank Ind	646.55	650.02	589.12

	July 21	Prev	Year ago
COMMODITIES (London)			
Silver (spot fixing)	478.85p	488.15p	
Copper (cash)	£1,024.5	£1,020.0	
Coffee (July)	£1,226.0	£1,215.0	
Oil (Brent Blend)	\$20.350	\$20.625	

	July 21	Prev	Year ago
GOLD (\$/oz)			
London	\$452.25	\$451.25	
Zurich	\$452.25	\$450.95	
Paris (fixing)	\$450.76	\$448.20	
London	\$453.10	\$449.80	
New York (August)	\$453.70	\$452.30	

CURRENCIES (London)			
	July 21	Prev	Year ago
US DOLLAR			
July 21	1.9580	1.9580	1.9580
STERLING			
July 21	2.9775	2.9825	2.9825
DM	1.9270	1.9280	1.9270
Yen	162.70		

SECTION III

FINANCIAL TIMES
SURVEY

The financial services industry in Canada is meeting the challenges of the revolution in international markets

after facing some unexpected shocks to one of the world's most stable systems. So far the new breed of regulators and the institutions has coped with the turbulence successfully, says Bernard Simon.

Demise of the four pillars

ONLY A FOOL would have bet two years ago that Canada's banks would soon be buying seats on the Toronto stock exchange, that the clubby securities industry would throw open its doors to the biggest US and Japanese players, insurance companies would be allowed to make commercial and consumer loans—and, for good measure, that share prices would soar by more than 40 per cent on the TSX.

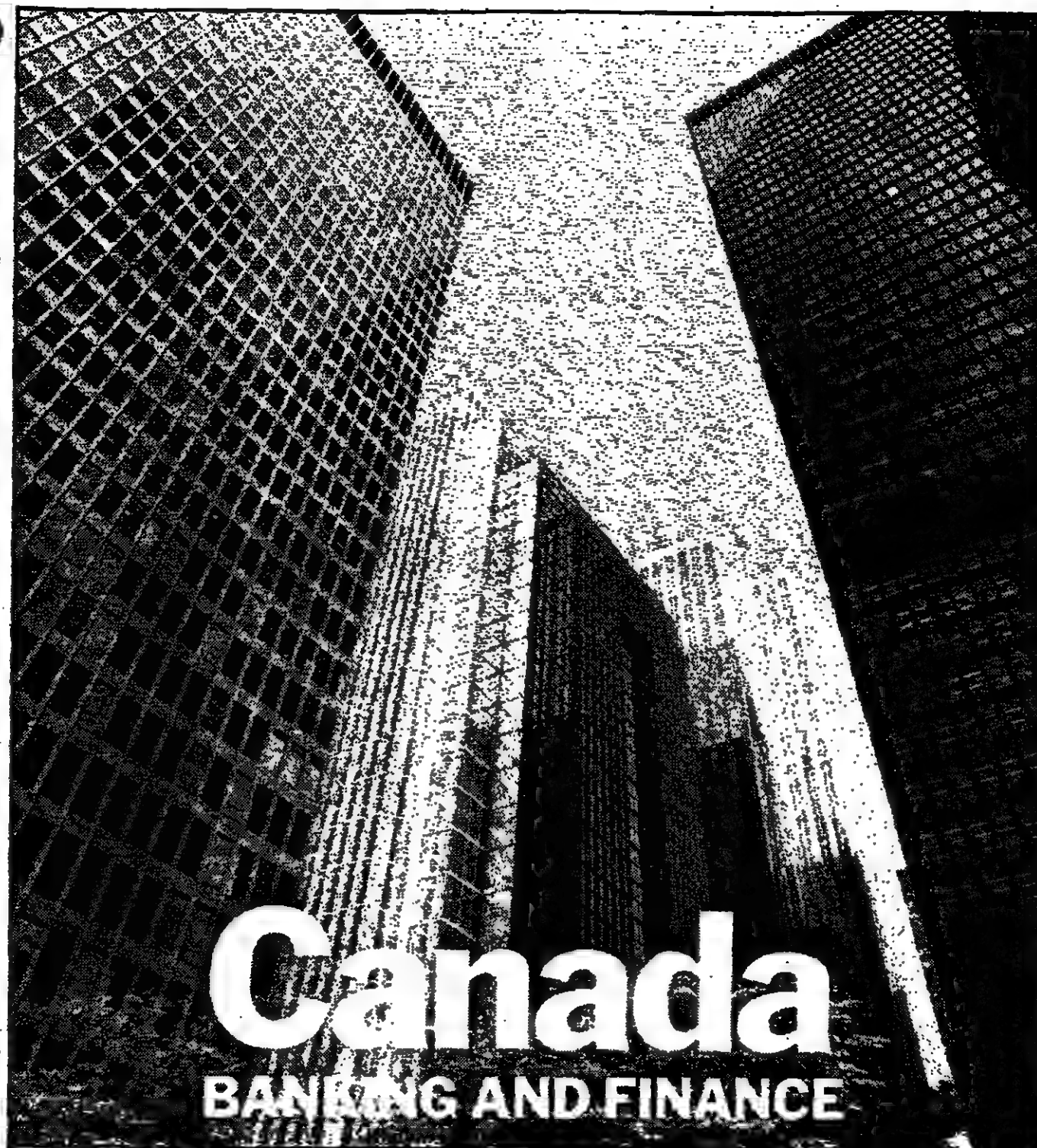
All these things have either happened or are about to happen as the Canadian financial services industry comes to terms with the revolution in international financial markets. Financial centres in other parts of the world have faced similar challenges in recent years. In Canada, the turmoil has been compounded by other unexpected shocks to what has long been regarded as one of the world's most stable and well-ordered financial systems.

The financial community has lived through the disappearance of almost half the country's domestically-owned banks since autumn 1985, following a run on small bank deposits. It has had to face up to the implications for financial ser-

vices of talks on a comprehensive free trade pact with the US, and adjust to sweeping reforms in the deposit insurance system. Much of the burden has fallen on a new generation of financial regulators. Since the upheavals in the banking system and the debate on deregulation began in early 1985, new faces have appeared as Minister of State for Finance (whose portfolio includes regulation of financial institutions), Bank of Canada Governor, Inspector-General of Banks and chairman of the Ontario Securities Commission.

The turbulence has so far been weathered with remarkable equanimity. The small banks crisis, now ended, has not shaken confidence in the banking system as a whole. Financial institutions have generally moved cautiously to take advantage of the securities industry's Little Bang (so named to distinguish it from the more spectacular event in London last year) which took place on June 30.

The most newsworthy event of that day was a sharp increase in the share prices of local securities dealers in the wake of the acquisition of a minority stake by First National Bank of Chi-



Canada

BANKING AND FINANCE

Toronto Dominion Center

Tony Stone

cago in Wood Gundy, the Toronto-based brokerage firm. On the other hand, the full impact of the reforms has yet to be felt. The changes of June 30 are just one part of a process which will take at least a year to complete.

Many uncertainties and risks still lie ahead. The recently-approved entry of foreign institutions and other outside investors will inject a new element of competition into the Canadian securities business.

With financial markets apparently close to their peak, the struggle for new business is likely to intensify.

It is thus still too early to identify winners and losers from the Little Bang. While some financial institutions—local and foreign—will benefit handsomely from the new horizons now opening up, others are bound to make mistakes as they seek ways of taking advantage of the more liberalised environment.

If a predicted economic slowdown happens, strains throughout the financial services industry will increase further. The short-term financial performance of Canada's big six banks may be hit by a review of provisions on their substantial loans to Latin American and other troubled sovereign borrowers.

In a nutshell, the Little Bang's reforms mark the end of the traditional "four pillars" of Canada's financial system. Each of the four—banks, trust com-

panies (quasi-banking institutions whose business is based on home mortgages and fiduciary services), insurers and securities dealers—has in the past been either limited to or specifically barred from certain types of business.

The rules which came into force on June 30 allow banks, insurers, trust companies and other outside investors for the first time to take a substantial equity interest in securities dealers. Foreigners, previously

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barred from the securities business (with a handful of exceptions), can now own up to 50 per cent of a securities dealer. The ceiling will be abolished entirely on June 30 1988.

Foreign investors can also set up wholly-owned subsidiaries provided they confine their business to the so-called "exempt" (or institutional) market.

The demise of the four pillars is confirmed by changes in the regulation of federally-supervised financial groups. A new post of superintendent of financial institutions—held by former bank auditor Mr Michael Mackenzie—has been created to combine the jobs of inspector-general of banks and superintendent of insurance.

Securities firms continue to be the responsibility of provincial authorities, although there is a growing body of opinion in favour of a federal securities regulator. In what may turn out to be the first move in that direction, the provinces have agreed to allow Ottawa to oversee the in-house securities activities of banks, insurers and trusts.

Little Bang's next phase is expected to start later this summer when the federal government publishes draft legislation on the ownership and functions of federally-regulated institutions.

The proposals are expected to follow closely a policy paper published last December which suggested that common ownership be allowed for banks, trust companies, and insurers. A key proviso would dilute ownership according to the size of the institution.

According to the policy paper, large financial institutions will generally be barred from acquiring other large institutions. But they will be allowed to set up new subsidiaries in areas hitherto closed to them.

Trust companies and insurers will gain full consumer and commercial lending powers. Banks will be able to offer in-house portfolio management services, and to enter other fiduciary business through trust company subsidiaries or affiliates.

Conglomerates: "New Directions" dilemma: Credit unions: giving the banks a run for their money

The one group which stands to lose more than it gains from deregulation is the powerful financial service conglomerates—such as Trilon Financial, Power Financial and Crown—which are controlled by non-financial companies.

These groups have stitched together extensive networks of trust companies, insurers and mutual fund groups. Royal Trust, part of the Trilon group, is a partner in the country's biggest real estate broker. Another conglomerate, the Quebec-based Laurentien group, controls a savings bank.

The constituent parts of these groups have gained a headstart on the traditional four pillars by pooling computer resources, exchanging customer lists and selling each other's products.

But their rapid growth and wide diversity of interests have also raised concern about concentration of power, and the potential for conflicts between controlling shareholders' financial interests and their commercial and industrial businesses. The Government is expected to propose various measures designed both to limit the conglomerates' growth and to make them more accountable to outsiders.

The response to Little Bang has so far been unexpectedly muted. In spite of the headstart given to them, Canadian investors have so far shied away from buying existing securities dealers.

Three of the big six banks—Canadian Imperial Bank of Commerce, Bank of Nova Scotia and Toronto-Dominion—have set up small securities subsidiaries.

The two biggest trust companies—Canada Trust and Royal Trust—have announced they will steer clear of the securities business to avoid conflicts of interest with fiduciary clients.

Similarly, the major life insurers appear to be more interested for the time being in expanding their retail sales forces.

Foreigners have been more active. About a dozen US, Japanese and European firms have already applied for registration with the Ontario Securities Commission for wholly-owned subsidiaries.

Continued on Page 2

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New era begins

Continued from Page 1

Just as the overall shape of Canada's financial services industry has been radically transformed in a surprisingly short time, many of today's individual banks, trust companies, insurers and securities firms may look quite different within the next few years from what they are now.

New rules for entry into securities sector

In terms of an agreement between Ontario and Ottawa, the federal government will regulate the in-house securities activities of federally-supervised institutions, such as the banks. Ontario will continue to have jurisdiction over securities firms, including those which become subsidiaries of other institutions.

significant commercial interests." Similarly, non-financial companies will not be allowed to acquire or increase holdings in any non-bank institution with capital of more than C\$50m.

Large non-bank financial groups with commercial links will have to make available at least 25 per cent of their voting

A high-contrast, black and white photograph of the New York City skyline, featuring the Empire State Building and other skyscrapers, viewed from across a body of water with a ferry boat in the foreground.

The Parliament buildings in Ottawa: reforms spread over at least a year

He declined to specify how Ottawa plans to hold back a foreign institution falling into this category which, for instance, wanted to buy control of a Canadian securities dealer.

To supplement the new ownership curbs, the Government plans to expand the list of "non-arm's-length" parties with which financial institutions are

“protecting the solvency and integrity of institutions requires more than changes in ownership rules. No single ownership policy can protect against imprudent management or questionable business practices.”

On the other hand, Mr. Hocking, a federal minister, says the "you don't want non-resident"

Fuzzy areas between Ottawa and provinces



Mr Tom Hockin, Minister of State for Finance: contentious issues ahead

epitaphy, a higher priority for the Mulroney Government at present is the conclusion of a free trade pact with the U.S. So long as the talks are on track, Ottawa may not be keen to provoke a rift with Washington by blocking a foreign acquisition in the securities industry.

Bernard Simon

Harvard Simon

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CANADA BANKING & FINANCE 3

Banks in the securities business

Combining different cultures

IF ANY domestic concerns were going to be the Canadian securities firms after deregulation it was going to be the banks. They have the capital base and the facilities that the securities houses needed to play a truly international role, many people said. But as the day approached it was obvious that most of the country's major banks were initially going to go it alone rather than buy an existing business.

One reason is that many people regarded the prices the securities house owners were asking as too high. Three and four times book value. Royal Bank of Canada did become involved in lengthy talks with Wood Gundy. But days before the June 30 Big Bang date it withdrew and a week later was First National Bank of Chicago, the largest US midwest bank, that moved in to buy a 35 per cent stake in Gundy for \$125.5m.

It is not just price that has deterred the Canadian banks. It is also a matter of combining different cultures. On the one hand the more traditionally structured career pay and management in the banks, on the other, the more entrepreneurial spirit in the securities houses with young men and women receiving very high salaries and having responsibility for dealing in enormous sums of money.

Royal Bank, of all the Cana-

dian banks, should be well aware of the difficulties through its ownership of the UK merchant bank Orion Royal, with which it has been involved for 17 years, and last year's purchase of Kitcher & Aitken, the UK brokers.

"We as a commercial bank have learnt how to live with an investment bank," says Mr Geoffrey Styles, RBC's vice-chairman. But RBC has yet to declare its intentions towards expanding in the securities industry on the home front.

Mr Paul Cantor, president of CIBC's investment bank, identified the disadvantage of having an existing securities firm as certain overlaps such as an additional retail network which would lead to people having to be laid off, no guarantee that the best people would stay and the fact that one would be paying for people with talents the bank already had in-house.

So, CIBC adopted a do-it-yourself approach, buying in the skills where necessary. But Mr Cantor did not see this as ruling out the possibility of acquiring a position in the market dominant area where the bank was absent or "niche" player pure and simple. It has already done this with the acquisition of Grenfell and Colegrave, the London stockbrokers. It has also taken a 50 per cent stake in an Australia equity dealer and is operating in the Hong Kong

equity market through a joint-venture subsidiary.

Toronto's Dominion Bank claims it was the first Canadian bank to break into discount broking when it set up its own operation. It has since bought seats on the Toronto, Montreal and Vancouver exchanges.

"That move is looking a lot better than when we did it," says Mr Charles Baillie, executive vice-president.

TD like other banks aims to expand in the money market activities. It already handles large volumes of treasury bills, bank acceptances and commercial paper.

Overall the thrust of the Canadian banks' thinking is that they have the distribution network to develop in discount broking, where they are already active, and they have the experience and scope to move forward in debt-related instruments aside from the more troublesome area of bonds. The logic of spreading into the equity markets is less clear they indicate.

As Mr Terry Shannessy, a Merrill analyst in Toronto, pointed out, it is hard to sell large bought equity deals in the retail market and usually half goes to the institutions. It is here that the banks could not compete with the securities dealers unless they can get to know the big players. Supporting his view is the fact that no

very large bought deal has been handled wholly in Canada.

If the Canadian banks get into trading and the foreign brokers also move in in force, one could be looking at a replay of what happened in London where the existing dealers were mopped up by the overseas firms, Mr Shannessy suggested.

Though the Canadian banks' determination to enter the securities business after deregulation may have appeared somewhat lacking, the pressures for them to do so have been very strong. A clear trend towards securitisation of debt has been undermining their traditional core business of corporate and commercial lending. Thus the ability to handle ever larger debt issues has increasingly become dependent on one's presence and experience.

Securities is therefore "a crucial element of the banking business today," said Mr Styles. "In spite of the appearance of not having declared our tactics we were ahead of the others in declaring and being quite public and absolute on the necessity for us and other banks to get into securities."

But need is one thing. The benefits are another. In the medium-term at least the banks do not see ownership of a securities firm as being a significant contributor to bottom-line earnings.

Banks

Company and year end (Oct. 1986)	Return on capital 1 yr.	Return on capital 5 yr.	Assets (\$100)	Assets % chg	Return on assets	Op. cost per \$100 of assets	Domestic (%)	Profit mkt foreign (%)	Capital ratio domestic	Net int. inc. (% of assets) foreign
Continental Bank of Canada	46.95	20.05	5,499,566	-11	0.36	1.96	100	0	20.9	0.35
Bank of British Columbia	19.14	5.02	2,674,770	-18	-0.15	3.17	100	0	35.5	0.35
Toronto-Dominion Bank	19.00	21.55	51,447,088	2	0.79	1.92	70	30	15.6	4.17
National Bank of Canada	18.55	15.18	27,872,283	19	0.73	1.86	86	14	19.2	3.58
Bank of Nova Scotia	16.30	18.33	64,012,516	5	0.54	1.79	49	51	20.9	3.47
Royal Bank of Canada	13.01	14.84	99,806,565	4	0.50	2.18	74	26	21.4	3.43
Can. Imp. Bank of Commerce	12.42	14.98	80,841,499	7	0.44	1.99	70	30	21.8	3.22
Bank of Montreal	11.31	12.70	87,179,517	6	0.42	2.22	39	61	23.9	2.70
Montreal City & Dist. Savings	8.78	12.50	3,841,248	11	0.56	2.44	100	0	15.4	3.09
Average	18.38	15.01								

Not applicable Profit mkt-percentage of profit from domestic and foreign sources. Return on assets is calculated after tax. Net int. inc. as % of assets represents net interest income as a percentage of average assets and is shown on a double equivalent basis, i.e. for foreign net interest income means that all of the bank's operations were domestic. Bank of British Columbia has been acquired by Hong Kong Bank of Canada, and will become a division under the name B. C. Bancorp. Continental Bank has been acquired by Lloyds Bank PLC and is in the process of being wound down. Source: Report on Business magazine.

Where the banks feel more confident is on the domestic retail front where they have a natural distribution network in place in the form of thousands of bank branches nationwide. It seems unlikely that world players such as Salomon, Nomura or Deutschebank would ever be interested in attempting to attack the retail broking market in Canada through acquisition of a leading broking house could bring a sizable network with it.

The domestic banks are also well placed to serve the needs of the individual investor with security type products particularly in some communities where the bank is the only financial institution for miles around. Even at the bottom end of the market deregulation is making a significant change for the banks as they will now be permitted to advertise mutual

funds—North America's equivalent to Britain's unit trusts. In the past they could only offer these products to a client if he personally asked for them.

But there is no doubt that there is an enormous cultural divide between banks and securities firms. CIBC has sought to defuse the conflicts by splitting the banking group into three separate operating units to handle investment banking, corporate and retail banking.

When the legal barriers looked like coming down CIBC assumed that it would simply go out and buy a broker. The only question at that time was which one. But after accountant Coopers & Lybrand had examined the existing facility the bank began to query the pertinence of buying a full service firm.

Mr Cantor said: "We suddenly realised in terms of strategic objectives a lot of the pieces of the puzzle were in place. We had extremely aggressive and competitive trading activities in all respects except equities, not only in Canada but also in London, New York and Tokyo."

He expects to see a shake-out in the securities market and does not rule out the bank buying an existing firm. But present needs are being met through the investment banking division with a capital base of C\$750m and a staff of 850 compared with the group's capital total capital bases of C\$5bn and balance sheet total of C\$12bn and 34,000 employees.

So with three of the top five Canadian banks having taken the independent route and Royal Bank looking likely to do

the same, the broking firms remain a fair game for the international community with angry eyes focused on the US bank. Here the Canadians feel aggrieved that groups like First Chicago can move on their patch with impunity while the Glass Steagall Act in the US prevents them from having both a banking and broking presence in the US.

While the call is not for complete reciprocity as each country is recognised to have its own individual problems, the Canadian bankers do believe in the principle of "equivalent access." A cry that demonstrates that true global deregulation of the financial markets has some way to go. Yet Canada has put itself on the road and there can be no going back.

Chris Cameron-Jones

Domestic banking

LDC loan problem under control

WHEN THE world's leading banks began to make large provisions against their loans to Brazil and other less-developed countries the Canadian banks were not slow to act. In fact, some of the Canadian banks would claim to have been ahead of the rest on what has been regarded as much needed steps toward reality over bad and doubtful loans.

In the US, when Citicorp, the world's largest bank, said it was treating 25 per cent of its Brazil loans as non-accrual, the 15 per cent provision made by the Canadians and others started to look inadequate.

This is a view strongly rejected by the Canadians. Mr Geoffrey Styles, vice-chairman at Royal Bank of Canada, the nation's largest, pointed out that RBC began making provision almost four years ago and while it had not done as much as some it was ahead of the British and Japanese. He also felt it was necessary in a country such as Canada with six major banks, that they did not get into a competition to see who could set aside the most.

The provisions were not obligatory and a degree of co-ordination was necessary not only with the regulators but also with the tax department and the Government.

Despite the banks' confidence that they have acted appropriately, Canada's Inspector General of Banks has called them in to negotiate an increase to 30 per cent provision which could cost as much as C\$800m in two cases.

The issue, the banks point out, needs to be seen in perspective. Mr Charles Baillie, executive vice-president at Toronto Dominion responsible for treasury and investment banking, says that the bank now had non-accrual loans to LDC countries of about C\$2.3bn. The damage a default could do had to be put in the context of the enormous capital gains the bank could make by selling its large real estate interests including its headquarters and the 50 per cent in the adjoining complex which is on the bank's books at only C\$9.6m.

Even so analysts point out that Brazil has said it would pay 50 per cent of loans and refinances the rest. "That sounds like 50 per cent discount to me," says Mr Terry Shannessy, at Merrill Lynch in Toronto.

The general feeling among the banks is that the less-developed country loan problem is past. The difficulty for the Canadian banks, unlike their US counterparts, is that whatever action they take to write down debt immediately they are required for tax purposes to average it out over five years. This means that while impact is reduced in the first year the profit and loss account continues to reflect problems long since past.

This disadvantage in terms of depressing true earnings performance in subsequent years should disappear if the latest tax reform Bill introduced by Mr Michael Wilson, Canada's finance minister, on June 18, is approved. Under this, the link between loan-loss provisions for regulatory and tax purposes will be largely eliminated. A debit for bad and doubtful debts will be allowed for in the year when they occur and not subject to five-year averaging.

Whatever the correct level of provisioning the LDC debt crisis, especially where Brazil is concerned, is on the horizon where the banks are concerned. Of more interest is from where the next storm will blow for the Canadians.

With oil prices showing a firmer trend the oil loans problem in western Canada, as highlighted by the plight of Dome Petroleum, has abated. Not only that but if the price moves well above US\$16 a barrel most of the banks might even be looking at a "rebalance" on their earlier crisis measures, most of them based on likely loan losses on oil at around US\$15 a barrel. The recovery could be a welcome offset to those LDC problems.

Yet the outlook on the debt front is not all better news. Canadian grain farmers are suffering from low prices and falling land values. While they are not as heavily leveraged as the very large farms in the US the Canadian banks could harvest a few problems here.

However, Mr Baillie does not foresee any serious problems in agriculture and for lending generally Mr Styles does not see "any disasters" on the horizon. So with the oil and forest products industry debt difficulties behind them the banks appear to be in a position, given a good prevailing wind of the forecast of lower inflation, to pick themselves up from some very lacklustre performances for return on equity which has been in the unimpressive range of 10 to 11 per cent save for TD at around 13.5 per cent.

So where is the growth to come from in a mature bank like Royal which claims some 25 per cent of the domestic retail market? Strong growth in consumer loans, particularly mortgages, is expected to continue along with expansion of demand for many of its retail type services, said Mr Styles.

The threat on the domestic front as always for the Canadian banks comes from the trust companies. These concerns are in origin akin to the UK building societies but further down the deregulation road just starting in Britain. The leading trusts such as Canada Trustco and Royal Trust match the retail banks in services offered including deposit and cheque accounts and credit cards. For the retail banking sector in Canada, deregulation, in essence, means continuing to develop a comprehensive range of financial services through the branches, not just because this is what consumers want but because the trust companies will provide it if they do not. While the banks have been supportive of the regulatory changes they do feel they are being thrown into a deregulated market with several handicaps remaining. These were identified by Mr Allan Taylor, chairman and chief executive of RBC, as:

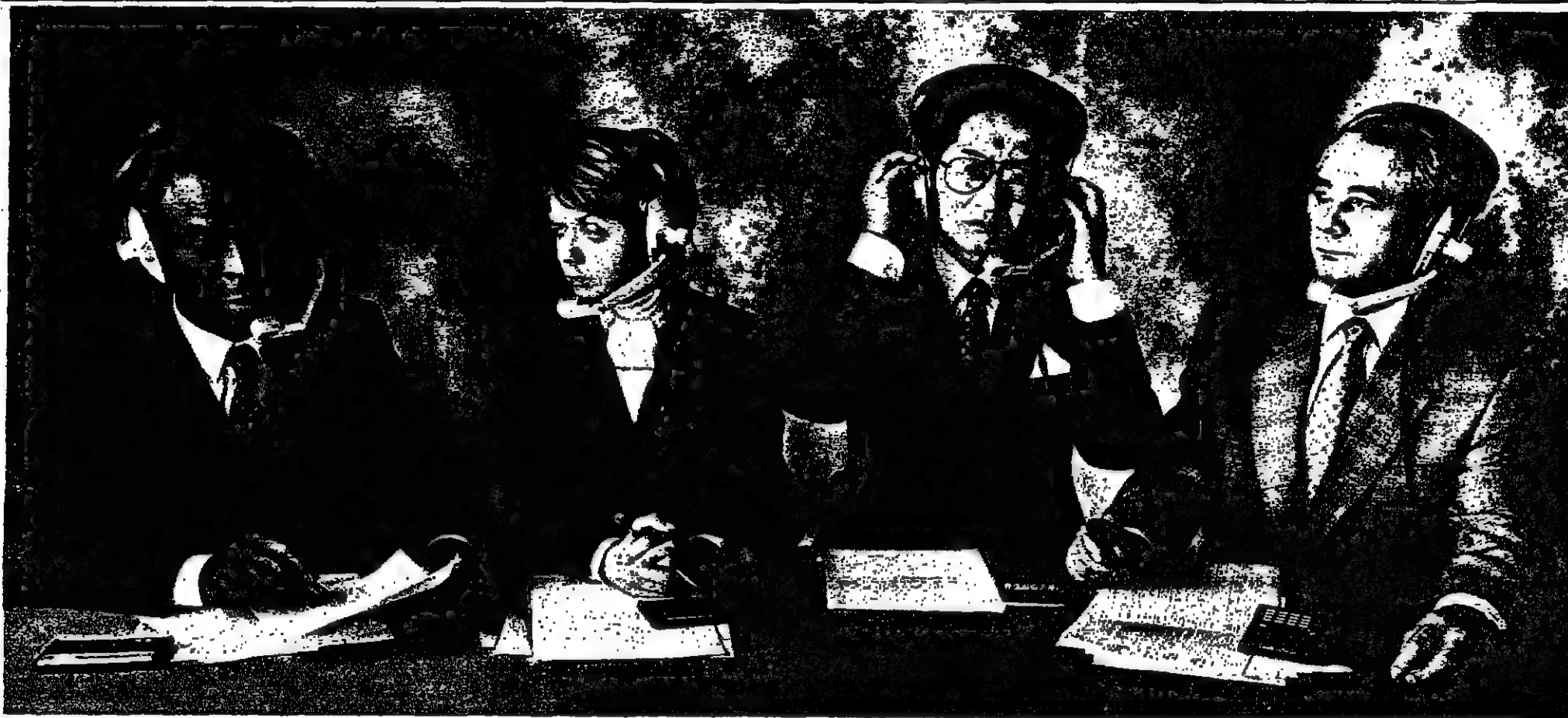
• Limitations on business powers, such as data processing services for bank customers. Under the law there is a fine distinction between computer-based services in the financial area. Banks, for example, can provide payroll services but not accounting services. No such prohibition exists for insurance and trust companies.

• The requirement for the banks, but not the trusts and insurers, to keep interest-free deposits with the central bank.

• Prohibitions requiring creation of subsidiaries to deliver trust and insurance services to bank customers, while trust and insurance companies can offer banking service in-house.

In the banks' report on the regulators attempt to create a free domestic financial market could be "could do better." The trusts would argue they are totally free neither.

Chris Cameron-Jones



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*IV

CANADA BANKING & FINANCE 4



Mr Michael Mackenzie: bank auditor to regulator

Profile: IG of Banks

Expanding role

MAKING THE transition from bank auditor to bank regulator is one of many challenges facing Mr Michael Mackenzie since he became Canada's Inspector-General of Banks last February. Previously a senior partner at Clarkson Gordon, the country's second biggest accounting firm, Mr Mackenzie, aged 60, took the reins at the Inspector-General's office in the wake of the most severe banking crisis in modern Canadian history.

The disappearance of six of the country's 14 banks in little more than a year led to strong criticism of bank regulators and contributed to the early retirement of the previous IG, Mr William Kennett.

Less reticent than his predecessor, Mr Mackenzie says that his move to the civil service has brought some culture shock. None the less, he has lost little time strengthening the IG's supervisory resources. "I'm using my auditor instincts," he says. "You've got to get beneath the surface of the water to discover how blue or how shark-infested it is."

To give him a closer view of the banks, the IG has opened a large office in Toronto, where five of the six leading Canadian banks and most foreign subsidiaries have their main offices.

Mr Mackenzie has also hired a number of private sector consultants to help smooth the imminent expansion of his regulatory functions as he becomes Canada's first Superintendent of Financial Institutions. In this new role, he will have responsibility not only for banks, but also federally regulated trust and insurance companies, as well as the banks' in-house securities business.

Consultants from four private sector auditing firms have been hired to help find ways of

maintaining uniform regulatory standards according to function rather than type of institution. Examination of accounting practices and internal controls over treasury operations are among the early priorities. Meanwhile, a senior securities lawyer has been engaged to draw up controls and accounting guidelines for financial institutions moving into the securities industry.

Mr Mackenzie maintains that the key to sound regulation of financial institutions is open lines of communication between management, directors, auditors and regulators. He says that "any supervisory system has to be built on avoiding a situation where one group has to take its stand in isolation."

To encourage such co-operation, he has suggested that external bank auditors (who took a large part of the blame for the collapse of two Alberta banks in 1985) should have their auditing practices examined by an outside firm. In addition, Mr Mackenzie plans to revive an advisory committee of auditors reporting to the regulatory agency.

He is also building on some earlier innovations, notably a review of bank auditors' working papers, and the appointment of 15 senior retired bankers to review each bank's major credit risks.

The mandate of the "Dad's Army" is to look at the current status of loans, thus giving regulators a more up-to-date picture of banks' stability than they have had in the past.

Mr Mackenzie says that the system may be extended to trust and insurance companies as they expand their commercial lending operations.

Bernard Simon

Trust companies

More pressure exerted on the banks

CANADA'S BIG trust companies have been keeping the pressure on the banks in the retail market. Now the regulators are about to enable them to turn up the heat, particularly with the lifting of the restrictions on their power to make commercial and consumer loans.

Even in the more regulated climate the trusts believe they have always held the market initiative with product innovation and flexibility—ability to "turn on a dime" as Royal Trust chief Mr Michael Cornelissen calls it.

Yet deregulation will have its negative side for the trusts just as for the banks. There will be greater competition in most activities, depressing margins, stretching management and probably causing a shake-out among the nation's 70 trusts.

The casualties are likely to be among the smaller companies—there are few medium-sized ones.

Only the big players could follow Royal Trust's lead in arranging a C\$1bn standby credit line to enable the smoothing out of funding pressure in both the good and bad times.

Mr Alan Marchmont, president and chief executive of Guaranty Trust, views the changes favourably. "I think the new environment is exciting and long overdue. The four pillars are a fiction. If there had not been change everything would have been owned by the chartered banks." He argues that the response to competition will be more specialisation.

A cry of foul over trust ownership rules however comes from Mr Mervyn Lahn, president and chief executive at Canada Trust which is part of Imasco.

He pointed out that non-financial groups will not be permitted to acquire more than 10 per cent of a trust, loan or insurance company.

Those which already hold more than this are required to have at least 35 per cent of voting capital publicly traded.

Imasco has, as a result, reduced its holding to 65 per cent but Canada Trust and others with large non-financial shareholders such as Royal which is controlled by Trilon Financial, part of a commercial empire, will be prevented from buying other financial concerns,

thereby stopping them benefitting fully from a shake-out in the industry.

As proposed, the legislation would make it very difficult if not impossible for Canada Trust to enter other areas through start up or by acquisitions, said Mr Lahn. But he felt the changes would enable the trusts to compete more effectively with the chartered banks.

He identified commercial lending as one area where Canada Trust would like to expand. Previously the trusts were required to hold two-thirds of assets in secured loans while the banks were unrestricted.

Mr Cornelissen was more scathing about the block on trusts owned by non-financial companies acquiring another trust. "We think that is fundamentally and morally wrong. It imposes a restraint on domestic Canadian financial institutions which will not be imposed on foreign institutions permitted to operate in Canada which also have non-financial links."

On the other hand he did feel that the ownership rules were favourable to the trusts in not restricting major shareholdings in trusts to 10 per cent as for the banks. More fragmented ownerships tended to make management less accountable to shareholders he argued.

Despite the relaxation of controls with regard to the securities industry the indications are that the large trust would rather extend and improve existing activities than go in head first with an outright purchase of a Canadian securities firm.

Like other trusts, he has offered discount brokerage services for some years but it sees a serious area of conflict if it undertook underwriting issues. The trust is deeply involved in investment management and advice and is the third largest mutual fund manager in the country. "We don't see how we could reconcile that with underwriting securities."

However, in taking that position one could lose access to large amounts of capital, and capital is the name of the game in the financial services industry. Royal is seeking to overcome this disadvantage with its five-year standby credit line.

Trust companies									
Company and year end	Return on capital 1 yr.	Return on capital 5 yr.	Assets (\$000)	Assets % chg	Return on assets	Return on equity	Op. cost per \$100 of assets	Capital ratio	Interest rate spread
National Victoria and Grey (Oct 86)	14.63	17.72	9,701,057	11	0.74	13.38	1.85	20.5	2.18
Central Trust (Dec 86)	14.42	11.09	3,409,791	18	0.59	17.61	1.86	28.2	2.23
Canada Trust Mortgage (Dec 86)	13.57	17.88	24,085,855	12	0.70	13.98	2.15	23.5	2.33
Royal Trustco (Dec 86)	13.08	14.85	19,543,000	45	1.11	18.85	2.61	15.1	2.05
General Trustco of Canada (Dec 86)	11.28	13.78	3,526,219	16	0.84	16.80	1.81	22.3	1.98
Fiducie du Quebec (Dec 86)	10.85	na	1,294,997	16	0.47	13.96	2.62	31.3	1.95
First City Trust (Dec 86)	9.60	9.64	3,133,467	17	1.16	14.77	1.85	19.9	2.47
Guaranty Trustco (Dec 86)	8.64	na	4,640,670	22	1.01	16.47	2.82	20.6	2.32
Standard Trustco (Dec 86)	6.38	4.97	1,274,848	14	0.81	18.38	1.02	22.7	2.01
Montreal Trustco (Dec 86)	5.10	10.89	7,054,290	127	0.57	12.55	1.67	20.2	1.91
Average	10.75	12.60							

na—not available. Interest rate spread is the difference between interest rate earned and interest rate paid; are shown as percentages and are on a taxable equivalent basis. Source: Report on Business magazine



Mr Michael Cornelissen, president and chief executive officer of Royal Trustco: ability to turn on a dime



Mr Alan Marchmont, president and chief executive of Guaranty Trust: the four pillars are a fiction

Meanwhile it is selling an interest in Savory Mill, the British stockbroker, acquiring as part of Dow Financial Services takeover last year, and disposed of a 10 per cent holding in a Montreal securities firm.

In contrast, Mr Sam Belzberg, chairman of First City Trust, the eighth largest in Canada, has said the trust, which is raising C\$45m, planned to enter the brokerage business either direct or "with friends." Also Central Capital, parent of Central Trust, the seventh largest, is considering a move into the Canadian securities business after its C\$83.2m agreed deal to buy Canadian General Securities, a Toronto-based financial services group which controls Traders Group.

The latter company is parent of Guaranty Trust, the nation's fifth biggest though with less than a quarter the assets of Royal and Canada trusts, the industry leaders.

While the other trusts may change their minds about not becoming too involved with the securities industry there is no doubt that the main thrust of their thinking will be in exploiting the new climate in their ongoing battle for market share against the banks. While Mr Cornelissen concedes that the big banks will remain big and successful, his company illustrates the culture differences between the trusts and the banks.

For a start there is the claim to innovation. But this is no good without the ability to turn a product idea into a reality. The trusts use half or less the number of layers of management found at a large bank. Royal has five. This means a financial product can be launched in some cases in little over a week where it could take a bank 18 months by which time the market has moved on.

Then there is productivity. Royal, for example has a tenth the number of branches of the

chartered banks but claims to operate each between seven and eight times more efficiently. New technology is playing a major part in this and not surprisingly spending in the fast growing investment area for Royal. It is currently absorbing C\$75m a year.

As Mr Marchmont at Guaranty Trust, noted, when the large trusts broke new ground by introducing interest-generating current accounts Guaranty had to pool resources with two other trusts to match the move. But the spending on new technology by the trusts pales by comparison with the C\$2bn earmarked for the next five years by the Royal Bank of Canada.

To some extent the banks are hampered by the need to protect their image as secure sober institutions while the public expects a more maverick attitude by the trusts. This does not overlook the fact they have been a number of significant failures in both sectors in recent years.

The maverick tag is certainly one given to Royal Trust in the UK when it upset the unit trust industry by sharply cutting management fees including dropping any charges for switching funds. It hopes to adopt a similar approach to mutual funds, the Canadian equivalent of unit trusts, in its domestic market.

So far it is also the only Canadian company to offer a credit card with a 1 per cent discount on purchases. Mr Cornelissen described this product as phenomenally successful and suggested that others had been slow to follow suit because they had too much money tied up in their existing credit card businesses.

Yet despite their enthusiasm and confidence the trusts have to be seen in perspective. At the end of 1986 the 70 Canadian trust and mortgage loan companies had total assets of C\$220bn—an C\$18.3bn increase on the previous year—compared with a total of C\$58bn for just the big five banks. So clearly the trusts with their extended powers and prospects in the light of the country's economic growth offer scope for increasing market share.

Non-have the trusts had everything their own way even in mortgage lending which had been their exclusive preserve until 1985. When the banks entered this sector they very rapidly became a dominant player. By 1984 the trusts and loan companies share of mortgage lending had fallen to 43 per cent of the total C\$22.68bn such lending by all institutions. Two years later when the total had reached C\$41.48bn the trust share was down to less than 36 per cent.

Mr Marchmont takes a philosophical view of activities where competitors depressed margins to unprofitable levels: "withdraw and compete elsewhere." Hence the interest in commercial lending.

One new strong growth area identified by Royal Trust is in personal financial planning. Demand has doubled over the past 12 months.

Yet with increasing competition and proliferation of financial products—a situation being further stimulated by deregulation—even sophisticated investors were becoming confused about the best course to take. As a result Royal has taken the unusual step of offering personal financial planning services on a fee basis and it says it is doing "remarkably well."

Also thanks in part to the regulators the trusts have not become involved in sovereign debt problems which are currently hitting bank reserves. Their biggest headache in this respect is their involvement in mortgage lending in the oil recession hit western provinces, but for most trusts these represent a fifth or less of their total lending.

But a cautionary note especially for the smaller trusts must be the projection for the industry finding growing acceptance that the "critical mass" needed to survive in the financial services business into the 1990s around C\$20bn. At present, that only puts the two leaders in play without the need to merge.

Chris Cameron-Jones

Insurance companies

Earnings start to pick up

IN THEIR first three months of this year Canada's largest general insurer saw pre-tax earnings jump nearly five-fold from C\$4.1m to C\$24.4m (\$11.8m) with underwriting showing a profit in what is a traditionally difficult time of year. The recovery at Royal Insurance Canada speaks volumes for what has happened to the industry in the past two years.

It is emerging from what has been described as "the most trying period of the century." Since 1980 eight insurers have collapsed. It required the sharpest increases in premium seen since the beginning of the 1970s to steer the insurers away from underwriting losses which in 1985 had reached C\$1.3bn. This total was more than halved in 1986 and the prospects are good for the current year.

Lessons appear to have been learned and some damage repaired with two years of premium hikes of around 20 per cent by many companies. Yet already there are signs of cracks in the industry's resolve with outbreaks of price cutting in the commercial property class. Nor have the higher premiums helped the lobby fighting against establishment of government-run motor insurance services.

The industry has been the victim of changing judicial environment which more and more begins to look like that of the US though the size of awards have yet to match the staggering levels experienced south of the border. The problem is that the cost environment is not improving and it is being left to the industry to take its own defensive steps to contain soaring costs.

The companies would argue that the price increases are little more than a long overdue inflation adjustment. Ironically the start of the industry's plunge can be traced back to government attempts to contain inflation.

To seek other sources of profit some of the smaller companies looked to re-insurance commissions making them increasingly dependent on the re-insurers. When the re-insurers started to withdraw from Canada growth had to be sought by price cuts that the larger groups were eventually forced to follow.

This particular scenario, which led to cuts in income as costs rose sharply, is not likely to be repeated. But in a mature insurance market like Canada where growth opportunities are limited, the triggers for a price-

UNDERWRITING EXPERIENCE					
	1982	1983	1984	1985	1986
Gross premiums	7,940	8,240	8,500	9,580	11,840
Underwriting loss	522	377	962	1,334	566

war always lingers just beneath the surface.

Some people are building their hopes for a securer future on the creation of insurance rate review boards which are being considered by several provinces and legislation is already passing through Ontario parliament. Just how far a bureaucratic body can effectively control a free market in this way has yet to be demonstrated.

A tightening of insurance company law means that companies which have failed in the past seven years would not be permitted to operate today. Their insolventcies tended to drag the whole market down and their impact on the market was totally disproportionate to their size.

To run salt in the wound the rest of the industry has to meet the winding-up costs excluding the claims, which in the case of Northumberland Insurance Company amounts to C\$90m (23.6m).

Mr Roy Elms, president and chief executive of Royal which may have to pay up to C\$5m of this bill, said: "This means these people have stolen your business and you end up paying for it. I think this is a needed change in the regulatory environment."

The re-insurers who serviced the failed companies may have also learnt a lesson and make capacity available more cautiously.

Even so Canadian insurers cannot be over-confident about their improved performance. Special factors such as a mild winter—by Canadian standards—helped the auto results. The property business benefited from a decrease in major fires and the absence of catastrophic weather losses.

The general insurance business is cyclical. Added to this there is a time lag between remedial action and the benefits starting to show through on the profit and loss account. So the current profit performance does not necessarily mean that all is well. But there is no doubt Canada's property and casualty business has achieved a dramatic turnaround and insurers do not have to have

positive underwriting results to produce a good return on capital.

That return which plunged to around 6 per cent in 1984 was little better in the following year but in 1986 rebounded to near 15 per cent. In auto business a survey by the Insurance Bureau of Canada of the top five insurers representing a third of the market, showed that premiums were raised 20 per cent in 1986.

Mr Elms believes the industry as a whole will, at worst, break even on underwriting this year; a very satisfactory result in the present interest rate earnings climate.

Basically the regulators have accepted the industry's proposals for change. But not everyone is happy about the tougher rules. Some argue that the severe restriction on the use of re-insurance impairs the flexibility to be innovative which is one of the few ways of cutting yourself a larger slice of the cake without resorting to price cutting.

But assuming the industry's house has been put in reasonable order and can resist another collapse into price war, domestic growth prospects must be closely tied to the country's economic growth. The signs are that the recession is over in the eastern provinces, but in the west in places such as Alberta its effects are still being felt though some steadying of oil prices should help.

But strong premium growth means little if costs cannot be contained. Not surprisingly for

the motor business the industry is placing much store in promoting the idea of no-fault insurance. Under this the injured party would lose all rights to sue for damages instead receiving specified compensation with no account taken of pain and suffering. For some people it would be able to claim up to \$600 (\$200 a week for loss of wages).

This would cover about 80 per cent of the population. Anyone earning in excess of this figure could sue for their loss. Unlimited medical and rehabilitation would be met and there would be special provision for long-term care of up to C\$200,000.

Introduction of such a system would, it is estimated, meet a 20 per cent saving on costs. This could translate into a 10 or 11 per cent cut in premiums if the savings were fully passed on to the customer.

But the proposals are meeting strong resistance on the grounds that it conflicts with federal law on rights and freedoms.

Perhaps the biggest threat to the motor insurance companies could come if the crash for government-run insurance schemes makes headway. Saskatchewan, Manitoba and British Columbia are the only governments in the industrialized free world to have introduced state-owned monopoly systems for bodily injury and property damage in automobile insurance. But these provinces represent less than 20 per cent of the total population.

The industry claims that the savings from such schemes are relatively minor and their introduction lowers the quality of service.

Aside from the problems in motor insurance the industry has as to come up with a solution to the increasing difficulty manufacturers are having in obtaining cover for their products, especially those being exported. The problem would become more than one of insurance if the present talks on free trade between the US and Canada prove fruitful. Failure to satisfy the demand for cover from the Canadian producers would leave the US exporters at an advantage in selling into a less-adverse judicial environment.

Some help in this respect might come from the newly formed Canadian Insurance Exchange.

Chris Cameron-Jones

EXCELLENCE

On June 30, 1987 Canadian Imperial Bank of Commerce brings its global reputation for excellence in banking to the full spectrum of Canadian financial services in Canada, with the launch of CIBC Securities Inc.



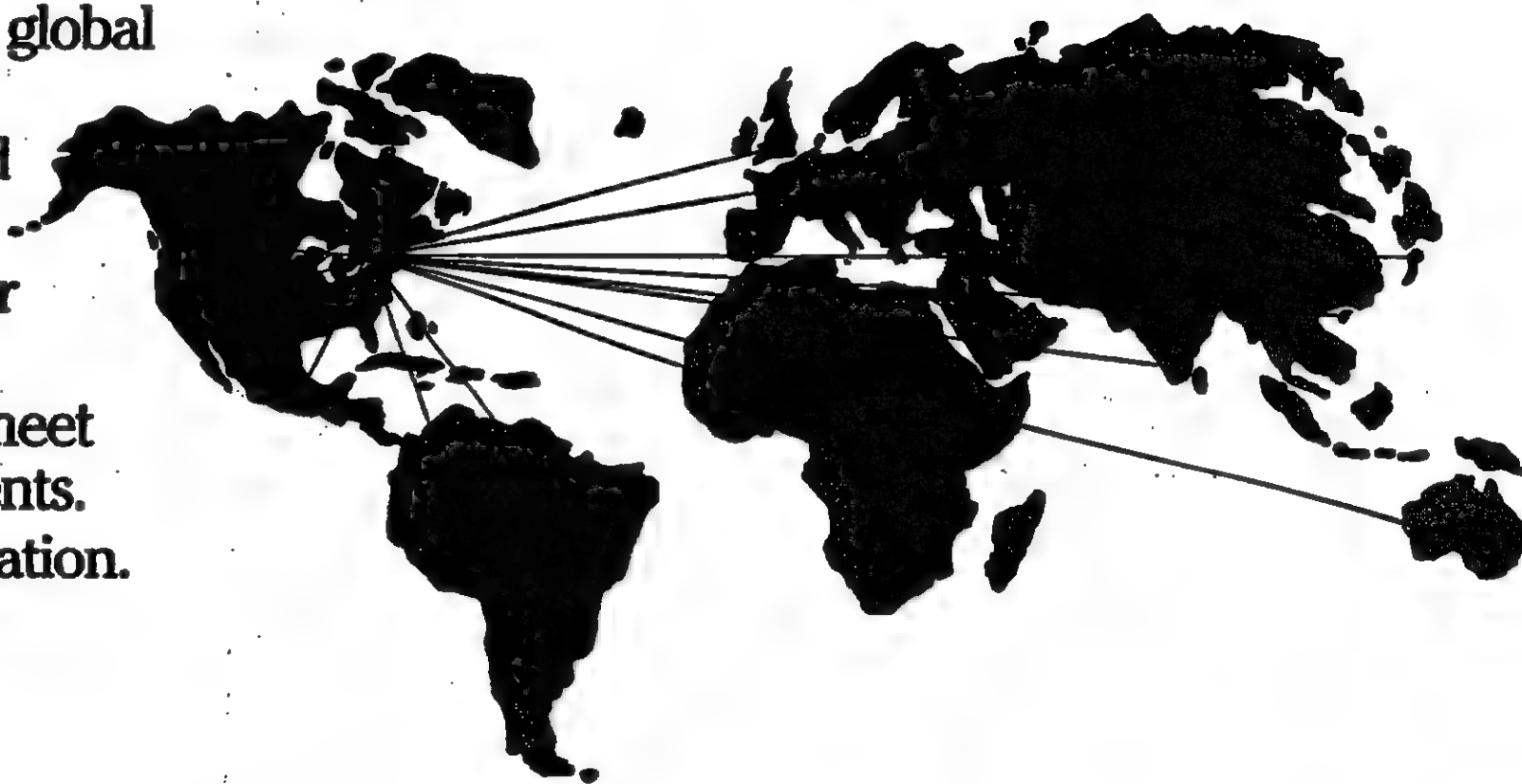
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CANADA BANKING & FINANCE 6

Conglomerates

'New Directions' under fire

SOME OF Canada's largest corporations are in dispute with the Federal Government over Ottawa's proposals to restrict ownership and growth of the financial institutions they now control.

Last December the Government published *New Directions* for the Financial Sector, a blueprint for a more open, flexible and creative regulatory environment to help Canada compete in the emerging global financial revolution.

At first blush, the proposals buttress the principle that a dynamic financial system should have room for both widely-held and majority-controlled institutions.

But the blueprint puts certain institutions into a new category, namely "commercially-linked narrowly-held" companies.

University of Western Ontario economist Thomas Courchesne says this may end up stifling the competition that "New Directions" was designed to promote and may encourage more financial industry concentration.

The companies most directly affected by "New Directions" and its approach to ownership are:

• Power Corporation of Canada and its Power Financial Corporation financial services subsidiary, both majority-controlled by Montreal financier Paul Desmarais.

• Trilon Financial Corp., majority-controlled by the Peter and Edward Bronfman interests of

Toronto; Imasco Limited, 40 per cent held by BAT Industries PLC of Britain; • Laurentian Group, Quebec City, ultimately controlled by a mutual insurance company; and Crown Inc., Toronto, controlled by the Jodrey family of Nova Scotia and the Michael Burns family of Toronto.

The common thread running through these groups is that they control major financial service companies such as insurance, trusts, and money management firms and even a federally-chartered savings bank, while at the same time operating subsidiaries in such non-financial fields as fast-food vending, tobacco manufacturing, real estate, pulp and paper, health care and electronics. In the case of Laurentian, the commercial link is highly tenuous.

Critics of the conglomerates have raised the spectre of excessive economic power being wielded by such conglomerates if they are allowed to expand their financial services links unchecked. Abusive self-dealing and a dangerous influence on public policy are among the perceived risks.

The conglomerates reply that majority ownership of financial institutions by themselves or by financial groups has served Canada well. They contend that the large banks make large loans to a few major borrowers, thereby contributing to the concentration of corporate power

in the non-financial sector. Recent figures show that the chartered banks account for 56 per cent of the financial service industry's assets, 65 per cent of the deposits, 84 per cent of the commercial loans, 71 per cent of the consumer loans and 31 per cent of the mortgage loans, far outweighing the share of all the trust companies, life insurance firms and credit unions combined.

The conglomerates argue that Ottawa's "New Directions" proposals give the chartered banks power to roam acquisitively into the insurance, brokerage and underwriting sectors as the four pillars come down, giving the banks adequate muscle to compete effectively.

But financial institutions majority-owned by conglomerates or other financial groups would not be allowed to form new banks, trusts or insurance companies, would have to ensure 35 per cent public ownership within five years, and submit to further regulation.

The conglomerates say that self-dealing is just as great a risk among the management and the directors of widely-held institutions as for conglomerate-controlled institutions. Bank boards invariably include representatives of the most important corporate customers. "Many officials are obsessed with the possibility of conflict of interest and the dangers of

inter-company transactions, but self-regulation can cope with this and more improvements are coming with the system of outside directors and outside auditing groups," says Mr Claude Castonguay, chairman of the Laurentian Group.

Trilon has had several meetings with federal officials and has found some sympathy for its case that "New Directions" is excessively restrictive for all majority-controlled institutions.

Imasco has agreed to reduce its holding in Canada Trustco, the country's second largest trust company, to 65 per cent over five years, but it is going to fight hard to get the restrictions on growth lifted. It has already taken extensive measures to satisfy demands to minimise the risk of conflicts of interest.

Several years ago, Imasco won a long dispute with the former Trudeau Government to be free to expand in Canada without fiat of the former Foreign Investment Review Agency which vetted foreign investments. Imasco is now regarded as a Canadian company despite the 40 per cent holding of BAT Industries of Britain.

Several compromises have been suggested to the dilemma posed by "New Directions." Some want a 10 per cent ownership limit for all types of financial institutions similar to the ceiling on bank shareholdings. But others suggest that all

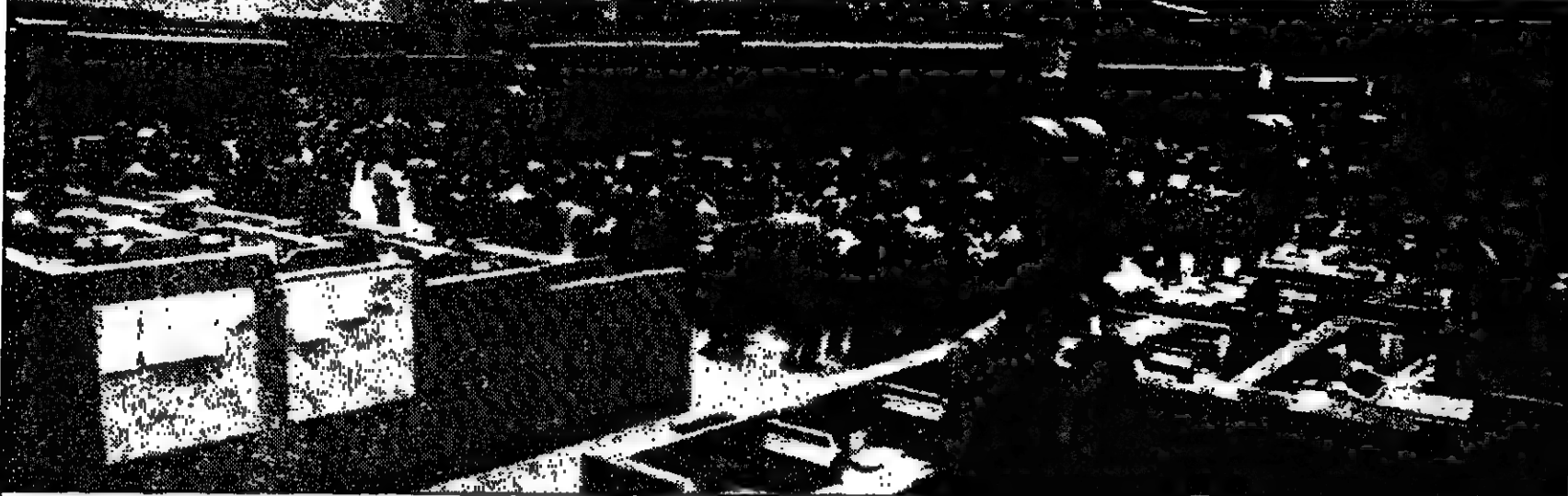
FINANCIAL SERVICES										
Company and year end (Dec '86)	Return on capital 1 yr.	Return on capital 5 yr.	Assets (\$000)	Assets % chg/yr	5-year asset growth	Return on assets	Profit (\$000)	Profit % chg/yr	5-year profit growth	Investments as % of assets
Integrated										
Tifton Financial	16.01	na	21,751,000	44	na	1.79	128,000	32	na	18
Power Financial	12.62	na	1,286,123	52	na	12.35	132,634	15	na	87
Genstar Financial	7.79	na	25,095,576	10	na	0.70	76,338	-7	na	20
Laurentian Group	7.65	na	5,924,454	55	na	0.89	25,741	132	na	29
Traders Group	7.37	8.19	4,978,976	16	6.9	1.05	20,372	61	50.2	15
First City Financial	5.69	9.59	4,534,852	21	16.1	1.81	36,314	52	-2.9	43
Average	9.52	8.89								
Mutual fund managers										
AGF Management (Nov '86)	87.30	50.46	22,789	42	10.8	61.23	5,914	101	24.4	69
Marchand Financial (Mar '86)	67.62	59.43	35,645	76	38.9	50.66	5,998	39	26.6	46
Guardian Capital Group (Dec '86)	17.25	18.26	32,705	38	16.4	15.48	2,165	23	4.8	62
CSA Management (Mar '86)	8.04	na	17,034	32	na	6.17	178	-72	na	3
Guardian Pacific Fm (Dec '86)	0.73	na	90,327	49	na	0.76	254	-53	na	86
Average	36.19	42.72								
Investment dealers										
Seafirst Leclerc (Aug '86)	42.49	na	69,751	90	na	22.94	5,287	389	na	31
McNeil Mantha (Sept '86)	16.00	na	114,871	73	na	12.51	3,882	92	na	48
Midland Doherty Financial (Mar '86)	10.82	na	567,331	6	na	8.09	446	7,333	na	51
First Marston (Dec '86)	9.87	na	291,052	180	na	9.48	9,293	207	na	10
Nesbitt Thomson (Mar '86)	8.02	na	1,419,653	75	na	6.33	4,993	-11	na	78
Pemberton Houston Willoughby (Mar '86)	6.55	na	127,941	40	na	5.05	1,007	34	na	44
Wahyun (Sept '86)	5.25	3.33	491,227	0	9.5	5.01	5,030	1,334	nm	75
Domestic Securities Limited (Sept '86)	2.10	na	3,121,530	23	na	1.80	15,854	154	na	50
Average	12.64	3.33								

institutions should be wholly-owned until they have C\$10bn in assets, declining gradually to 50 per cent on C\$50bn and finally 10 per cent over C\$40bn. These

totals would apply only to domestic assets and would exclude segregated funds. The concept of commercially-linked majority-owned companies

would be eliminated. Yet another suggestion is that all institutions should be subject to the 35 per cent public ownership rule, which would

provide sufficient protection for minority shareholder rights. That idea may prove the basis for a final compromise. Robert Gibbons



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On June 30, 1987 new securities

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Alcan Aluminum Limited
Bank of Montreal
Bank of Nova Scotia
Bell Canada Enterprises Inc.
Bow Valley Industries Ltd.
CAE Industries Ltd.
Canadian Imperial Bank of Commerce
Canadian Pacific Limited
Canadian Tire Corporation Limited "A"
Dome Mines Limited
Eco Bay Mines Ltd.
Galebridge Limited
Gulf Canada Resources
Imasco Limited
Imperial Oil Limited "A"
Inco Limited
International Thomson Organisation Ltd.
Laidlaw Transportation Limited "B"
MacMillan Bloedel Limited

Moore Corporation
National Bank of Canada
Noranda Inc.
Northern Telecom Limited
Nova, An Alberta Corporation "A"
Placer Development
Power Corporation of Canada
Ranger Oil Limited
(The) Royal Bank of Canada
(The) Seagram Company Ltd.
Sears Canada Inc.
Southern Inc.
Stelco Inc. "A"
(The) Toronto Dominion Bank
Transalta Utilities Corporation "A"
TransCanada Pipelines Limited

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GUERNSEY, Channel Islands

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EC3A 6ER

Levesque Beaubien Inc.
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EC2A 1AD

Loewen, Ondaatje, McCutcheon &
Co. Ltd.
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Montreal, where the growth of the Desjardins Group has been particularly strong

Credit Unions

Giving the banks a run for their money

CANADA'S CREDIT UNIONS, built on the 19th century co-operative ideals of Britain and Europe, are doing a good job for the big chartered banks and trust companies in consumer markets, especially in Quebec.

The total assets of the country's credit union movement, with a coast-to-coast branch network of more than 4,000 units, have reached nearly C\$60bn including affiliated insurance and fiduciary institutions. The unions make up around 16 per cent of the national retail financial services market.

The annual rate of asset growth has averaged about 8 per cent over the past five years, and in some parts of the country, particularly Quebec, has far outstripped the banks.

This huge business is divided about half and half between credit unions of English-speaking Canada grouped under the umbrella of the Canadian Co-operative Credit Society, based in Toronto, and the Desjardins Group operating all over Quebec and in several small French-speaking areas of Manitoba, Ontario and New Brunswick.

The growth and political influence of the Desjardins Group in Quebec has been extraordinary over the past two decades. Its 1,500 branches throughout the province, with large concentrations in Montreal and Quebec City, provide full banking services to individuals and small business, competing head-on with the chartered banks.

The Desjardins network of caisses populaires has been a leader in introducing new technology for 20 years, and its computer systems are now undergoing their third major update. In all, the group has about 24,000 employees. Assets at the end of 1986 were C\$30bn, including C\$24bn for the caisses populaires network itself, and the balance for affiliated institutions.

Two out of three Quebecers belong to a caisse populaire. Each caisse has its own local board of directors and belongs to one of 11 "regionales" or regional federations. The re-

gionales in turn control policymaking at the Desjardins Group headquarters in Quebec City and at affiliated institutions, including trust and life and casualty insurance companies.

Last year, Desjardins garnered 36 per cent of the Quebec consumer loan market, half the residential mortgage loan market, made half the farm loans and made about 18 per cent of the province's commercial loans, mainly to small businesses.

Desjardins also operates a wholesale banking unit responsible for funding the needs of the regions and an industrial holding company that controls a large food processor-distributor and one of Canada's largest vehicle leasing companies.

Desjardins faces several challenges as Canada's financial services industry moves towards deregulation. It can expand the affiliated trust and insurance companies outside the province to help maintain growth. But taking its retail financial services network beyond Quebec and the three French-speaking areas of the other provinces would not be easy.

Instead, the group may have to fight harder to hold its dominant position on its home turf. Besides preparing for greater diversity of services made possible by advanced computerization, Desjardins is now looking for ways to maximise its leverage by selling equity to the public, perhaps through a new holding company controlled by the regionals.

This would provide new capital for growth by putting the group's accumulated reserves to full use, and could also be used as a powerful marketing tool. Desjardins already owns 10 per cent of a stockbroker. Two of its affiliated institutions have already made public stock issues. But it also wants to retain its basic co-operative structure and the founding spirit of 1901 when it began taking deposits and lending to farmers and artisans turned away by the banks.

The assets of English-speaking Canada's credit unions total

led about C\$25bn at the end of 1986, excluding most of the affiliated institutions. The network comprises 2,500 units in nine provinces. The co-operative structure is similar to the Desjardins Group, with provincial organisations, controlling policymaking and the CCCS.

The unions' greatest strength lies in the Maritime provinces, the Prairies and British Columbia. Market penetration in populous Ontario is low.

One reason, says Mr Ralph Beslim, CCCS communications manager, is the different perception of credit unions in Ontario, especially in Toronto. Ontario credit unions have been identified traditionally with specific industries or ethnic groups, rather than community-type organisations as in most other parts of the country.

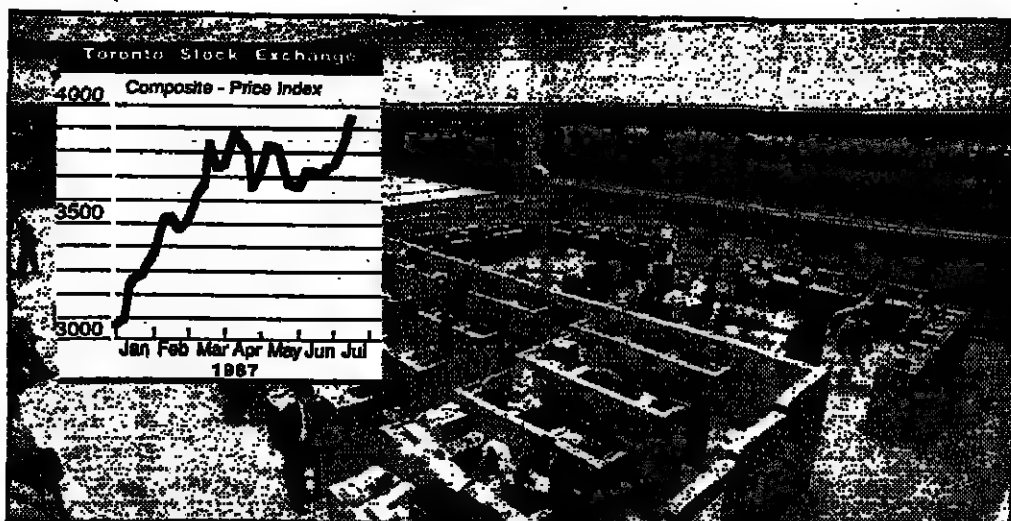
Credit unions have a 35 per cent market share in Saskatchewan, and a 17 per cent share in British Columbia. They are very strong in farm loans on the Prairies, but run well behind the banks and trust companies in residential mortgages in all areas.

Loans to small business total about 5 per cent of their portfolios, and larger-scale lending to corporations for major projects is handled at the provincial level. Stepping up the pace of commercial lending is not a top priority at this point, says Mr Beslim.

"Our greatest challenge in the near term is to build our market share in Metropolitan Toronto," he said. "We have to convince the public there that credit unions are full-service financial institutions doing business with the general public, and that depositors are fully protected by our stabilisation funds and provincial regulation."

The credit unions have several one-stop financial services units operating on a pilot scale in Western Canada, but more time is needed to ascertain the degree of public acceptance. The unions are watching experiments by others, including the Desjardins Group, which has offered something approaching one-stop-shopping for many years. Robert Gibbons

CANADA BANKING & FINANCE 7



The future market of the Toronto SE

Stock Exchanges

Toronto leads the way

CANADIAN STOCK EXCHANGES have watched the phenomenal growth in world trade in stocks and bonds, international capital markets and money supply, and have decided they must be part of the action.

Canada is already the world's fourth largest capital market; the three leading Canadian exchanges, Toronto, Montreal and Vancouver, are confident that with new capital flowing into the securities industry, advanced information technology and development of new products, they can prosper and build on the coming financial services revolution.

They want to cement their role as regional exchanges, but also provide Canadian investors with full access to foreign markets at competitive cost and attract foreign investors to the Canadian markets with superior service. It is a tall order. The lead has to come from the Toronto Stock Exchange as the country's largest by far. Now fully automated, the TSE accounts for about 78 per cent of the total dollar volume of trading on the four Canadian exchanges. The Montreal exchange does about 15 per cent and the rest is done by Vancouver and the two local exchanges in Calgary and Winnipeg.

Of the combined dollar volume of Toronto and Montreal alone, the TSE holds a share of about 81 per cent and the ME 19 per cent. Optimists argue that opening up the Canadian securities industry to outsiders brings in badly needed capital. Also the exchanges themselves are getting access to new capital through rising interest by large international securities houses in buying seats.

Daiwa Securities paid a peak of \$361,000 for a TSE seat in May. Other foreign firms are negotiating similar deals both in Montreal and Toronto. American and other investment banks have moved to Toronto, Vancouver and Montreal.

The Canadian exchanges have invested many millions in automation over the past five years, to provide fast, efficient and competitive trading facilities. These plans will be completed when the VSE opens its fully automated trading floor next year. The TSE has sold its CATS system to Paris and is negotiating similar deals elsewhere.

They believe they now can provide automatic execution of orders at the best possible price, thereby developing further trading links with US and other foreign exchanges.

The TSE recently created the TSE-35 index comprising 35 of the most liquid and heavily-traded Canadian stock issues. The index is designed as a base for index options and futures contracts. The TSE-300, a broader index, will be retained, but the existing options and futures based on it will probably be dropped.

The idea is to offer institutional investors, both domestic and foreign, more attractive programs trading facilities with full hedging. Similar indexes for options and futures contracts have been set up in Australia, Hong Kong and Japan to attract major institutional investors.

All the Canadian exchanges are working to get more non-Canadian listings by offering simplified procedures which are less costly than listing requirements in the US. Montreal has been a leader, though its progress in developing an international section has been

disappointingly slow. The ME has a new president, Mr Bruno Rivier, who recently headed the wholesale banking arm of the \$30bn Desjardins credit union movement in Quebec. The ME's recovery pace has slowed, but he says he is determined to interconnect more closely with the Tokyo-London-New York axis.

The ME already has links with the Boston Stock Exchange and through the International Options Clearing Corp. with the Sydney and Vancouver markets. Links are also in the pipeline with regional floors in such cities as Chicago and Philadelphia.

Mr Rivier wants to downplay rivalry with Toronto and work more closely with the TSE to develop Canada's access to the world trading system.

The VSE is striving to become an international venture-capital market with fully automated trading, and to play down its penny-stock image. It is getting more co-operation now from the British Columbia provincial government and supervision is being tightened.

Sceptics point out that Canada can at best account for only a few percentage points of the massive international trade in securities. They urge the Canadian exchanges and investment houses to be cautious and to concentrate first on providing domestic customers with efficient access to foreign markets and bringing foreign institutional customers into Canadian markets.

Some are nervous about commitments being made to 24-hour trading, to new and expensive products and costly link-ups that may not be able to stand the test of a real market setback on the scale of 1974 and 1982.

Robert Gibbons

Securities firms

Domestic banks stay on the sidelines

BIG BANG has left Canadian securities houses in a kind of limbo. First, the expected rush by domestic institutions to snap them up has not materialised. Second, the indirect effects of deregulation threaten profitability.

Some outsiders believe the securities firms are themselves to blame for the lack of takeovers by seeking three and four times book value for companies where the greatest assets walk out of the door every night. However, a few partial deals have been done but all by foreigners. These include the purchase by First Chicago, the US banking group, of 30 per cent of Wood Gundy, Canada's second largest investment dealer, after the broker terminated talks with Royal Bank of Canada.

In another deal, Shearson Lehman, the New York investment bank, lifted its stake in McLeod Young Weir, Canada's fifth largest, to 30 per cent from 10 per cent. But these deals only go to emphasise the likelihood that if any houses are going to be acquired outright it will be by foreign institutions when they are permitted after June 30 next year.

Part of the reason for Canadian financial institutions'—particularly the bank's—hesitation over what to do about the securities business may have been their unwillingness to buy investment firms "at the current modest offering price, which for some reason they consider rather extravagant," Mr Francis Lamont, chairman of the Investment Dealers Association of Canada, suggested in his latest report.

Behind this may be "the illusion that the extensive branch and communications networks

of the chartered banks are key potential assets in the distribution of securities." Building one's own capability takes time to reach a critical mass Mr Lamont suggested.

The structural changes brought about by the new regulations had been anticipated by the industry which expanded its capital by 50 per cent during 1986 to C\$1.54bn (£723m) from C\$1.03bn in 1985. This compared with C\$977m in 1982. At the end of March this year there were 99 firms employing over 24,000, against 100 firms employing almost 20,300 in 1985, and 98 firms employing almost 17,000 in 1982.

Even so, the absence of domestic or potential foreign buyers is not seen as good news for Canada. As Mr Donald Bean, president and chief operating officer at Wood Gundy, pointed out: "If you want to see a couple of Canadian groups in the top 25 in the world it is going to be virtually impossible if no Canadian dealers link up with Canadian banks."

Thus it would seem that the intentions of the authorities to deregulate so that Canada could find a major role in the world securities market risks is being thwarted. But the market has been launched on an irreversible process according to Mr Andrew Kneiwasser, president of the association. At present the association has 60 member firms, which handle 95 per cent of the primary and secondary deals in the country. So far it has had over 50 applications for membership, about half from non-resident firms.

Six large American and four Japanese investment banks dominate the list of applicants for broking licences in Ontario. Mr Stanley Beck, chairman of the Ontario Securities Commission, said he did not envisage the smaller foreign houses applying since it was an expensive undertaking. Even so, with the domestic banks and the foreign institutions seeking part of the action while the Canada's securities houses remain independent, the outlook can only mean intense competition not just over business but over staff.

The prospect is that margins will be squeezed by lower prices, while costs will be forced up as the best qualified people will be able to command high salaries. "You can see people being put into a situation where they have more reward and less risk at another firm. They can't be replaced in short time," said Mr Bean.

Loss of top staff can affect the public image causing business and market share starts to slip away. Combine that with a cyclical downturn in the market and times would get tough for the independent domestic firms.

However, some analysts believe that if just one Canadian bank buys an existing securities house the rest would quickly follow. While most of the big banks so far appear to have chosen to go it alone, the problems of buying in expertise and building a reputation may persuade them to change their minds.

As it happens, 1986 was an outstanding year for the nation's securities industry. Operating profit was up 35 per cent on 1985. Though there was only a modest rise in corporate financing, common equity issues jumped from C\$4.7bn to C\$8.9bn of which just under half was for the small and medium-sized businesses. Despite this growth Canada is not a significant force

in the world capital and equity markets compared to the three leaders New York, Tokyo and London.

If Canadian brokers are to have a global role in the era of deregulation therefore, it will undoubtedly be as niche players.

Mr James Pitblado, chairman of Dominion Securities, looking at a radically different world to the sheltered one the Canadian houses have enjoyed in the past, said that his company would try to maintain its strong domestic base while selectively growing in international markets where it has particular expertise, principally with Canadian clients. Dominion Securities aimed to continue to invest heavily in new technology.

Even so, his view of the possible outcome of recent developments in worldwide deregulation has an almost religious commentary: "We are creating great potential for very serious problems. Money corrupts and financial services business is where you get closer to money than anywhere else. I think the pressure is on everyone to perform. This will create a very serious situation."

"We have seen the world trying to survive an international banking crisis. What if the whole financial sector goes through one of these international crises?" Such remarks reflect the real concerns outside their own self-interest that the securities firms were endeavouring to convey with their resistance to the Big Bang proposals.

Mr Kneiwasser reflected some of this concern by reporting that a lot of people had changed their minds and "think we are going too fast."

It is certainly true that mat-

ters have progressed quickly. It is 17 years since Merrill Lynch of the US bought Ross Securities in Canada. The whole question of foreign ownership of Canadian securities firms that this brought up fuelled a debate which has been going on ever since. But the deregulation proposals took shape only towards the end of 1986.

Ironically Mr Bean does not see much increase of choice for the investor. Nor was there any substance to the argument that the securities industry was under-capitalised: "We said we had enough capital to do the business we were doing. If we have an expertise at all it is in raising capital if we don't have enough," he said.

The most hopeful sign for the domestic securities firms is that their foreign rivals have not as yet displayed an intention of attacking them on their home fronts. Instead they are concentrating on bond trading debt financing and underwriting.

Meanwhile, the Canadian firms like Dominion will not be trying to compete with major Japanese and US firms or aim to be a global dealer in the UK or a primary dealer in the US. "That is big league stuff. We are sitting in a niche that we know," said Mr Pitblado.

But with 69 firms already in the market, and more about to join, the question for the domestic securities firms in Canada must be whether there will be enough profitable niches to go round. The answer must be no, so a shake up can be expected in the industry whether or not those much expected mergers ever come to pass.

Chris Cameron-Jones

Profile: Donald Bean

Skilled politician of finance

If anyone knows about the backstage on the inside between Canada's securities firms and the regulators, it is Mr Donald Bean, president and chief operating officer of Wood Gundy, the nation's second largest firm.

An executive member of the Investment Dealers Association of Canada and its president in 1985-86, Mr Bean is chairman of the Securities Industry Planning Committee which was formed in December last year, with the Ontario and Federal governments, to work on the deregulation pro-

posals. In this role he has appeared before parliamentary bodies and the regulators. Representatives of the country's five self-regulating bodies involved with the industry sit on the committee and the "provinces" have been looking over its shoulder.

This is not the first time Mr Bean has been on the hot spot. He was involved in the debate with the regulators when Merrill Lynch of the US took over local firm Ross Securities 17 years ago and set in train a debate over foreign ownership

that has gone on until today. "We are into dramatic trade-offs with Federal government and the provinces wrangling about jurisdiction for investor protection," Mr Bean said of the latest talks.

Fortunately he finds he gets along with politicians which is perhaps a good thing trying to resolve how to make a national market work given two sets of regulations covering the financial institutions.

He has never been far from the politics of finance since leaving the University of Western Ontario in 1964. He

joined Mercantile Bank of Canada before moving on to Wood Gundy in Toronto in 1969. Four years later he became an assistant vice-president and then vice-president and eventually reaching his current post in 1982.

When not in the office or at home with his family he relaxes from the uphill struggles at work with the downhill slopes of a ski run, sailing some smoother waters, or taking his frustrations out on a tennis ball.

Chris Cameron-Jones



Mr Donald Bean, president and chief operating officer of Wood Gundy

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- A return on common equity of 28.2 per cent compared with 23 per cent in 1985.
- A return on assets of 2.33 per cent, "which we believe to be the best performance by any major financial institution in Canada in 1986."
- A 19 per cent increase in assets under administration, to \$7.5 billion.
- Total sales of all financial products and services (including mutual funds) of \$1.4 billion in 1986, an increase of 34 per cent over 1985.
- A 56 per cent increase in sales in the first quarter of 1987 over the corresponding 1986 quarter.

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SECTION IV

FINANCIAL TIMES
SURVEY

Izmir has become one of Turkey's most dynamic business centres. It manages to maintain a vigorous

trading image, built on strong export traditions, without harming the timeless serenity of one of the Aegean's most prosperous and thriving cities. Survey written by David Barchard

Region thrives on exports

FEW CITIES in the Western world stretch back as far as Izmir, or have a comparable reputation for charm and graciousness over the centuries. Even fewer manage to combine such a reputation with bustling life of a large trade port and a burgeoning industrial centre.

Yet that is what the Izmir of the late twentieth century, a city of more than 1.6m inhabitants, at the heart of a region with more than 6m people, has succeeded in doing.

Izmir remains an outstandingly delightful place, both for the visitor and its residents, envied by much of the rest of Turkey.

For the city's older inhabitants, there may be a sense of a breach with the past, and the submerging of the intimate but cosmopolitan world of the Izmir which existed at the turn of the century. Most of the city's buildings today are recent, while its population has grown beyond recognition, swollen by tide of immigrants from Anatolia who number over a million people today and are constantly multiplying.

To the outsider, however, Izmir displays strikingly more continuity with its past than most Turkish cities. Levantine French, English, and Italian families still play a large part on its business life, just as they

did a century ago. Like other port cities, Izmir today has its eyes less on the hinterland behind it than on the world across the water with which it trades. Families have sent their sons to be educated in Europe for centuries, and still do. In the city, Europe's influence is much more visible than in the country as a whole, despite the teeming suburbs of shanty towns and immigrants.

"In our city, the middle class is very strong," says Izmir's governor, Mr Veddi Gonul. "We may not be the richest town in Turkey, but we are the most middle class one."

Some foreigners resident in the town feel that the life of the business city is a little too different from that of the hinterland to be entirely secure. "It is a bit like living under a bubble or in an enclave," says one.

The pressure of immigration, which pushed up the city's population by 15 per cent and that of the surrounding province by 14 per cent in the first half of this decade, seems set to continue and is recognised by the city's mayor, Mr Burhan Ortatara, as one of the biggest challenges facing him. By their numbers the immigrants stretch services and infrastructure well beyond limits originally planned for them.



IZMIR

AEGEAN TURKEY

The Colossus Library, now restored, one of the main tourist attractions of the world-famous ruins at Ephesus

Terry Kirk

However, the city's booming economy—and the fact that it has a surplus on its foreign trade, unlike the country as a whole—seems to guarantee that its separate character will be maintained.

The economy of Izmir rests on four pillars: agriculture, commerce, industry and latterly tourism. Each embraces a variety of activities and lucrative opportunities for contact with the outside world.

Some companies can trace their history back for decades. For instance, Izmir Pamuk Meneset, a leading Izmir textiles company, possesses records of its pre-First World War board

meeting, written in French and Ottoman Turkish in a fine cursive hand.

But most companies are new arrivals, many little more than a decade old. This year, for instance, the National Can Company of the US opens its Turkish operations in a plant in the Manisa industrial zone, 40 minutes' drive from the heart of Izmir, where most new industry is to be found.

These developments redress a tendency in the 1960s for Izmir's role in the national economy to shrink. Before 1914, Izmir is thought to have handled about 40 per cent of Turkey's foreign trade and local merchants

would proudly repeat that "If Istanbul sinks, Izmir will save the day."

In 1985, exports and imports from the port of Izmir were each only about 13 per cent of the national total, though by no means all of the city's foreign trade, and still less that of the surrounding region, goes out through its port.

The rapid growth of Istanbul into an industrial megalopolis of 6m people has inevitably left Izmir far behind. Few Izmiris in any case would wish upon their own city the virtually total break with the past and the disappearance of most of its best-loved features which has befallen Istanbul since 1980.

A businessman from one of the minority groups, with family connections going back over 400 years, says: "I think anyone who spends any time in Izmir will eventually realise that people here are conservative. They don't feel the need to go too far or too fast. Maybe they are not as interested in new lines of business as they might be."

Yet Izmir has transformed itself into Turkey's second industrial city. In doing so it has faced some obstacles as well as holding some advantages. One of the most formidable problems has been the virtual divorce since 1922 between the main-

Business families
Profile: Dundar Soyer
Industries:
Tobacco
Iron & Steel
Profile: Yasar Holdings

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Food and agriculture	Textiles
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City profiles: Manisa	Denizli
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land Aegean region of Turkish Anatolia and neighbouring islands once inextricably linked to it by trade.

This is the aftermath of the traumatic events following the First World War. In May 1919, Greek armies invaded Izmir, under the protection of British battleships on what proved a futile attempt to conquer and annex Western Turkey.

The invaders practised the cruelty and destruction familiar in other Near East conflicts. A British resident of Izmir at the time recorded, for example, the beating to death on the quay of 30 Turkish officers by the arriving Greek troops.

Three years and four months later, on September 9, 1922 (still a local feast day) Turkish armies re-entered the city. There was an exodus of the Greek population and the invading armies—and a great fire broke out obliterating much of the old city. Neutral non-Turkish eye-witnesses agree on blaming the departing invaders and their allies.

At any rate, much of the old city was lost and trading links destroyed. In a way, Izmir has been partially eclipsed by this and the subsequent inward-looking economic policies of Turkey until the present decade.

"No one in the city feels any resentment or hatred towards the Greek people," says Governor Gonul. Greek television is widely watched by ordinary people, and when viewing was disrupted by technical problems a few years back when Greek TV went over to colour, the Greek embassy in Ankara was bombarded with complaints by viewers.

Businessmen would like to see rivalries wane and trade with Greece revive. So too would the Turkish government, but its overtures to Athens in the past two years have been immediately brushed aside. However, the number of Greek visitors, often making shopping trips, is growing.

The overshadowing growth of Istanbul has been a second problem. It is not only the largest consumer market in Turkey by far, but also controls the lines of distribution into Anatolia. Make something in the Aegean and you will usually have to sell to Istanbul or through Istanbul. This deters some investment.

It also makes some Izmir companies move north. The Egebank Group came from Izmir but has been Istanbul-based for a generation. Last year, Mr Atilla Yurucu, head of the Ildas group moved to Istanbul, though he says he has not deserted his

home city, simply shifted his export operations.

Izmir would probably benefit from a more concerted promotion of itself and the region around it which tend to be little known outside Turkey. There is an international fair, but as one foreign businessman says: "The fair is not to be taken very seriously. Industrial goods are on display, but to the wrong people—the general public and their children."

The president of Izmir's chamber of commerce, Mr Dundar Soyer, has been battling unsuccessfully for a shake-up in the fair for many years.

The various people and institutions who should play a key role in attracting outside investment are not co-ordinated and there is no publicity organisation.

Nevertheless, a glance around the Izmir region reveals examples of new, well-managed investments, aimed at world markets, which one would expect: Soktas, Raks, Vestel, Kutas, to name a few in different fields.

Such enterprises are perhaps a bit thinner on the ground than might be hoped and mostly on the city's periphery, while it is easy, too, to spot less-profitable large-scale enterprises in its centre producing for the domestic market.

The prospect for Izmir is agreed to be one of steady expansion. When Turkey moves closer to full membership of the European Community, regional growth is bound to accelerate.

A deeper relationship between Turkey and the EC is obviously going to benefit the Aegean coast in particular," says one foreign businessman.

The city has done well out of the trade liberalisation of the 1980s in Turkey, and though the ruling Motherland Party was defeated in a by-election for an Izmir constituency last autumn, support for the policies of the Prime Minister, Mr Turgut Ozal, is probably well above the national average in the city.

The party's candidate in the by-election was Mr Yurucu of Ildas. Many though by no means all of Izmir's businessmen strongly support Mr Ozal's reforms; they tend to be less enthusiastic about the religious upturn which has come with them.

The feeling, though, is that while good and bad times come and go in Turkey as a whole, Izmir's strong record as an export centre and the sophisticated conservatism of its people, guarantees it a calm, prosperous future insulated from any national uncertainties.



Alexander the Great dreaming under a tree and the two Nemeses bidding him to found the new city of Smyrna on Mt. Pagos. Roman coin minted in the reign of Philipppus Arabs (A.D. 244-249).

"Three and four times happy shall those men be hereafter
Who shall inhabit on Pagos beyond the sacred Meles..."

the god replied, according to the story told by Pausanius, to the founders of Izmir (Smyrna) who sent for advice to the oracle of Apollo before the foundation of the city.

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Dynasties play an important
role in industry

Place for family business

WHAT'S IN a name? In the business world of Izmir, a very great deal. The city's business scene is largely, though not entirely, a world of families and relations, reflecting the city's merchant past.

There are a few international corporations, such as Coca Cola, or Turay, the Turkish subsidiary of Henkel of West Germany, or Vestel, the Manisa-based electronics offshoot of Polly Peck International.

There are also some corporations—for instance the Iron and Steelmakers Metas, or the region's two main cement companies, or the truckmakers BMC (in which the original British parent company now owns less than a 3 per cent stake)—which are owned by a combination of companies, families and foreign investors.

But these are exceptions. Most Izmir businesses are family-run, some of them by the second or even third generation.

The major name is that of Yasar, whose 47 different companies almost make up a regional sector in their own right.

Though Mr Seluk Yasar, the present chairman, inherited the business from his father, he has effectively built the group up into the conglomerate it is today by entering new fields, not all of them immediately obviously profitable ones. "In some ways he is probably ahead of his time," says a foreign banker.

Who ranks next? There is some disagreement. The Ozsaran family, who preside over Metas, have one claim. Another belongs to the Ozakat group who are generally seen as the main industrial family after the Yasars.

The Ozakats own the Egebank, a motor parts producer called Otomobilcilik ve Ticaret, a packaging plant, and food processing plants.

The Ozakat group consisted originally of three families, but families have a way of multiplying. Currently ten families are involved and in another generation the number is expected to rise to 30.

For this and other reasons, a major restructuring operation is under way. Apart from

streamlining the operations of the group, this change should, clarify the relationship between it and its cadet members, probably guaranteeing employment but not necessarily a role in running the business.

Multiple ownership can mean vulnerable management. Last year there was a major shake-up at Ozakat, when in a move without precedent in recent Turkish company history, 55 per cent of the shareholders got together and voted out the chairman, Mr Melih Ozakat and installed his younger brother, Ergun, in his place.

The change sent shivers of horror through the older generation of Izmir businessmen, though the group has clearly gained from an infusion of new entrepreneurial talent, something which is perhaps scarcer in the city than it ought to be.

At Mr Ergun Ozakat's side now stands Mr Istemi Gorel, who himself heads another group based largely on the Sunel tobacco business, but also including interests in the motor industry, cement, packaging, agricultural exports—and its own spice firm Kutas, a bulk supplier for Maccormacks.

Elsewhere in Izmir, the Yurtou and Sivri families run Izdas, a group largely based on iron and steel and foreign trading. Another Sivri, Mr Esat Sivri, has set up Denizli Basma ve Boya, a leading exporter of ready-to-wear garments and printed cloth to the USA.

After Mr Seluk Yasar, Izmir's most remarkable entrepreneur is probably 45-year-old Mr Aslan Onel, of Raks, makers of electrical goods and audio and video cassettes aimed at international markets. The Raks plant at Manisa is one of Turkey's most advanced excursions into industrial high tech.

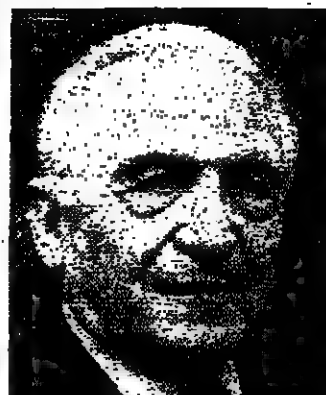
However, the dozen of the city's business life is probably Mr Herve Giraud, owner of Izmir Pamuk Mensucat, the second oldest textile company in Turkey.

There is a strong admixture of Italian, French, Jewish, and even English influences in the city's business, all taken entirely for granted among Izmiris, though there are some-

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Mr Dunder Soyer, president of Izmir's chamber of commerce. Below: Mr Rask Ozsaran, honorary chairman of the Metas group



times tensions with immigrants from the Anatolian hinterland.

Many of these families have been in Izmir for two or three hundred years. Izmir Pamuk Mensucat, for instance, was set up in 1914 but the family was running a carpet business long before that, selling Turkish carpets to the Victorians.

Older Izmiris sometimes speak nostalgically of the great Izmir companies of the past—M. J. Taranto ve Kumpanyasi, for instance, was founded in 1888 and dominated the city's life until the second World War, or the English H. C. Whitall and Co.

The field is not closed. The Regusin brothers' motor parts factory, set up in the 1970s, is one prominent new arrival. Just who is financially strong is another question. Many Izmiris instinctively point to the tobacco-exporting families as having the most ready cash.

As one foreign businessman puts it: "There are no balance sheets to be seen for the families. My gut feeling is that some of them are pyramiding upon a relatively small amount of capital with too few imaginative entrepreneurs."

Profile: Dunder Soyer

Izmir's biggest salesman

FOR MANY Turks living in other parts of the country, Mr Dunder Soyer, president of the city's chamber of commerce, is more or less synonymous with Izmir itself.

Mr Soyer is one of the few remaining national figures in Turkey closely linked with the founding fathers of the republic. His father was a comrade in arms of Kemal Ataturk, and later was made governor of Izmir. A photograph in Mr Soyer's office on the seafloor at Alsancak shows his father and Ataturk drinking champagne at some forgotten celebration in the 1930s.

Mr Soyer himself has lived in Izmir for near 45 years. He was educated at Ankara's political science faculty and then at the Sorbonne where he read economics.

His business activities range from foreign trade to the fertilizer industry, steel, and the production of nuts and bolts. He has been president of Izmir Chamber of Commerce since 1971.

"Izmir is an open window looking out to the west," he says. "The rest of Turkey may look towards Istanbul but we look towards Europe. This is a very ancient port, which has been selling agricultural goods to Europe for many centuries."

He has been one of the foremost proponents of the Gazicim free zone, planned for a site just south of the city. "Izmir is very suitable for industrial development and foreign investment," he says. "We do have the same sort of difficulty as anywhere else in Turkey, but much less acutely. People are a bit smarter here."

Mr Soyer has mixed views on the Ozal government's economic policies, favouring the shift to trade liberalisation and exporting but critical of, for example, the government's inability to bring down inflation. He believes also that agricultural production should be stimulated by new incentives.

"The recent package of agricultural incentives is really not very effective," he says.

For Izmir, he would like to see a complete reform of the city's annual international fair which, like most businessmen, he feels has too little to do with business. "Members of the chamber of commerce go in and out of it like ordinary members of the public," he says.

Another need in his view is for some sort of organisation to help guide foreign investment to the city.

"This is a rich zone and though you have a lot of agriculture, you also have every other major type of economic activity represented. We have always been a transit point for trade between Europe and the Middle East and the Far East. This role could be expanded."

Members of his chamber are mostly foreign traders though they also include some medium-sized industrialists. In this the Izmir chamber closely resembles its counterpart in Istanbul.

Mr Soyer's leadership goes well beyond business matters. In May this year he was at the centre of a national controversy when he stormed out of a dinner being given by the president of the Union of Turkish Chambers of Commerce and Industry which he felt had turned into an Islamic prayer-meeting.

He tendered his resignation on the spot as a member of the union's board and announced plans to set up an association of pro-western Turks.

He says of the incident that his opponents in the union believe that Turkey's future is in the Arab and Muslim world "whereas I want to belong to the modern Western world. In any case, the Turkish Union of Chambers is a public body and attached to the state. It should conform to the laws we have on secularism."

He has twice served in national politics, though as he puts it only as an "amateur".

Not surprisingly, he is one of Turkey's most active lobbyists for membership of the European Community, saying firmly that the country cannot belong to two clubs at the same time.

However, he feels that the image presented by Turkish guest-workers in Germany has had an adverse impact on his country's standing with German public opinion. "German opinion is very crucial for us," he says.

More than most people today, his ideas—and his enthusiasm for a secular, industrialised European Turkey—are recognisably products of the Ataturk decades during which he grew up. They may seem a trifle old fashioned in the 1980s—but it is because of them that modern Izmir is the city it is today.

Proof that there is life outside Istanbul.



If you think Turkish industry begins and ends in Istanbul you're making a big mistake.

The city of Izmir may have a smaller population, but in many ways it is actually more important than Istanbul.

Izmir has the finest natural harbor in the whole of the Aegean, with Turkey's most extensive shipping facilities. More of Turkey's exports go through Izmir than through any other port.

The Izmir region is the country's most important agricultural area. Tobacco is a major crop, and Izmir figs, raisins and cotton are known all over the world.

As well as a superb harbor, Izmir has a superb climate. This, and the vast number of historical sites in the area, make the city an important tourist centre.

And a wide range of industries have grown up in the last thirty years, too.

One of the largest industrial and commercial concerns in the whole Aegean region, the Ozakat group, is based in Izmir.

With origins that go back over half a century, the group is now in the hands of its second generation of management.

Ozakat's chief activity is making and marketing trucks, tractors and diesel engines in association with such well known companies as British Leyland, Cummins and Volvo. Other automotive interests include manufacturing rear axle cases and air brakes in association with Rockwell International and distributing Fisk Tyres.

The Ozakat Group also manufactures paperboard and moulded pulp items for use as egg, fruit and meat trays using Hartmann technology, exports dried fruits, beans and other foodstuffs and is an appointed surveyor for Lloyds.

Finally, as well as interests in insurance, the group includes EGE BANK, one of the fastest growing national banks in Turkey.

Yes, there is life outside Istanbul. Izmir and Ozakat prove it.

The Ozakat Group

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Tobacco industry

Part of the heritage of the country

IN TURKEY'S Aegean region, cotton may be booming, heavy industry may be growing—but tobacco is still definitely king.

Turkish exports of tobacco, run at around \$300m each year. Exports—and very nearly all of the crop—consist of oriental tobaccos rather than the Burley or Virginia tobaccos which give the distinctive flavour to the best-known Western cigarette brands.

Turkey has a more or less unequalled position in the market where oriental tobaccos are concerned, being a much larger producer and exporter than other countries growing it such as Greece, Bulgaria and Yugoslavia.

Until very recently, the state tobacco and alcoholic beverages monopoly, Tekel, was the only producer of cigarettes in Turkey, but Tekel competed with the private sector as an exporter.

Last year the monopoly was removed and in theory the sector is now open for joint ventures. One company, Best, has been producing cigarettes in association with Rothmans for several years. But social and political interests are hopelessly entangled with business considerations in the Turkish tobacco world.

Forty thousand families grow the crop. The livelihood of several million voters may depend on it. Growers are divided further between those on farms on the plains who grow up to 400 kilos on a donum (a Turkish unit of land measurement equivalent to 940 square metres) and those in the hills who manage only 50 kilos a donum each year.

Despite this, Turkey's imports of cigarettes match, more or less exactly, the country's tobacco export earnings.

The obvious solution would seem to be to admit that world tastes, including those of Turks, have changed and switch to growing Burley and Virginia tobaccos (assuming that the political obstacles to importing limited amounts for blending cannot be overcome).

But Turkish officialdom regards oriental tobacco as part of the country's heritage. Some experimental growing is taking place—but the changes are highly unpopular with the farmers.

Part of the explanation could be fear of unemployment. Growing oriental tobacco is more labour intensive than for other varieties. Last September, tobacco growers in Izmir, Manisa and Samsun on the Black Sea asserted themselves by voting in droves against the ruling Motherland Party. "The changes are in their interest but the growers do not understand," says one leading Motherland Party figure.

For the moment, little has changed for Izmir's principal tobacco exporters who include, as well as Tekel, companies such as Karagozoglu, Austro-Turk Tütün, a subsidiary of the Austrian state tobacco Töbacco, and Sünel.

The Izmir tobacco crop in 1986 was about 110,000 tons. Each autumn sees Tekel and the merchants jostling for access to top-quality tobaccos as the market opens.

Tekel's average price tends to be about 10 or 12 per cent below that of the merchants (last year TL1,700).

By the end of the last season in Izmir, the merchants had bought 35,000 tons in all and Tekel about 75,000 tons.

"Tekel are not good buyers, storers or sellers," says one merchant. Nonetheless, this side of general elections at least, Tekel looks like keeping its dominant position. Several international companies have started negotiations with the Government to make internationally-known cigarette brands. But Government insistence on foreign-led consortiums having to make use of huge "shell" factories, erected by Tekel earlier this decade and since standing empty, has made progress slow.

Instead, some of the more dynamic Turkish tobacco groups are now looking to other sectors. "The money to be made in tobacco is more on the money management side of things than on tobacco handling," says Mr Istemi Gurel, chairman of Sünel.

His group has made forays in recent years into the cement industry (it owns the largest stake of Cimtas, Izmir's main cement producer), iron and steel, and Ozakut group, Izmir's second largest industrial conglomerate.



The Golden Dolphin Hotel at Cesme is owned by the Yasar Group

Profile: Yasar Holdings

From paint to hotels

"THE GUIDING principle in business for me is that Turkey should develop by creating export-oriented industries," says Mr Selcuk Yasar, chairman of Yasar Holding, the Aegean region's largest industrial group and the third or fourth biggest in the country.

"Selcuk Yasar is the leading entrepreneur in the region," says a banker. "It is very difficult to imagine what Izmir industry would be like without the Yasar group."

The beginnings of the group go back only 33 years to a paint and turpentine factory set up by Mr Yasar's father, an immigrant from Rhodes. Over the next 20 years, the group expanded to 12 companies. Today it has grown to 47 with a total turnover last year of TL358.8bn (\$589m).

Activities fall into several not very obviously related divisions. There are five companies still linked to the paint industry, with market shares of between 30 and 50 per cent. There are nine agro-related companies ranging from a fertiliser company, Ege Gubre Sanayi A.S., which is the second most profitable branch in the group, to dairy products, drinking water, fish farming, meat, and brewing.

The group also includes a paper mill, a packaging plant, a mining company, an engineering consultancy firm, an insurance company, and a bank—the Tuzbank, in which Irving Trust of the US acquired a 40 per cent stake in March 1985. All this was the work of Mr

Yasar whom his deputy chairman, Mr Ali Nail Kuball, describes as the "textbook description of an entrepreneur: dynamic, aggressive, adventuresome, quick and demanding." Mr Yasar's framed portrait stands on the desks of all executives throughout the group.

Mr Kuball concedes that the group's diverse range of activities is partly a reflection of Turkey's protectionist economic structure. But there are other reasons for it too, he says.

"In Turkey you have to spread risk across economic sectors and industries. The rules of strategy and management are different from those of larger economies and markets." Helping companies traverse the business cycle in Turkey, he says, is a bit like a mountaineering team. "Those companies which are currently on top help out those which are going through the slump phase of the cycle. The idea is to make sure that a company being supported is viable in the long run."

Yasar is proud of being one of Turkey's most innovative groups. Going into businesses (agro-industries and processed foods are one example) before any of the other large groups.

This does not always make for an easy existence. The Altinyunus tourism complex at Cesme is probably Turkey's leading resort hotel today and one of the most profitable companies in the group, earning TL 695m (\$1.1m) after tax last year. But in



Mr Selcuk Yasar, chairman of Yasar Holdings: Izmir's leading entrepreneur

the early 1980s it was a loss maker.

Bear interest rates and politics have all created problems for the group in the past few years. Last year pre-tax group profits were down by TL 1bn on 1985 to TL 10.0bn (\$16m).

Part of the explanation lies in sharply-increased interest payments—up from TL 18.1bn in 1985 to TL 34.2bn (\$57m) last year.

However, a decision by the Ozal government in the spring of 1984 to clamp down on unlicensed beer sales also played a part. Yasar went into a joint venture with Tuborg of Denmark in 1967 and became

the first private sector company to produce beer.

Annual capacity was originally 8,000 metric tons of malt and 150,000 hl of beer a year. Demand grew steadily and by 1981 the group decided to expand production for a second time, to 30,000 tons of malt and 1,350 hl of beer.

Just at this point, when the investment was being completed, the Government changed the laws covering beer sales and destroyed the distribution systems of Yasar and its only rival.

Explanations for this vary. One school of thought blames Islamic fundamentalists in the Motherland Party who wanted to outlaw the sale of beer. Others believe the Government was getting its own back: Mr Yasar had supported a rival party in the general elections.

Officials at Yasar duck the issue when questioned—but concede that the restriction on beer sales has hurt the group.

The conflict with the Ozal government is a little ironic since Yasar—more or less alone among Turkey's big holding groups—devotes a major part of its resources to earning foreign currency.

In 1986, the group's total foreign currency earnings were \$2m-\$3m, says Mr Kuball. "Today the figure is around \$100m."

The group has 9,000 employees (making it about a third the size of Koc or Sabanci, Turkey's two largest groups).

Iron and steel

Private sector success stories

TURKEY'S iron and steel industry produces about 7.4m tonnes of products a year, 65 per cent of them coming from the public sector. The public sector iron and steel operations are, to put it politely, pretty well what one would expect: textbook cases of government insistence in a developing country on setting up large-scale heavy industry with little or no regard for market realities.

Even in the 1980s this process has not altogether stopped. Decako, a new public sector iron and steel plant, is being built in Sivas in Central Anatolia. Just why it is going ahead, no one seems able to explain—but the reasons seem to have more to do with voters and with politics than with anything else.

Not so the four private sector steel mills in the Aegean region. Created and managed by private investors, they have had to learn survival in international and local markets the hard way.

Times have not always been easy, but Turkey's private sector steel producers currently rank among their country's success stories. Most of the private sector production takes place in the Izmir region.

Cukurova Demir Celik, for instance, is the strongest company in the group whose name it bears, turning out 1m tonnes of steel a year. It is followed at some distance by Colakoglu (the main producer not based in Izmir) which produces 500,000 tonnes a year.

Then comes Metas, one of Izmir's best-known names, which hopes to achieve the same level this year for the first time, and finally Izmir Demir Celik and Habas (a new arrival on the scene) each produce about 300,000 tons a year.

The private sector producers go about things in a way which has brought success to similar ventures around the globe. They import scrap and melt it down, re-exporting a substantial amount of their finished products—about half in the case of Izmir Demir Celik, and about \$30m-worth for Metas.

As Metas's general manager, Mr Isin Celebi explains, even after eight years of the Prime Minister, Mr Turgut Ozal's export-oriented policies, the domestic market is still more lucrative.

"We use exports to cover the costs of our imports and foreign exchange expenses. We need to go on with exports as an insur-

ance. Conditions could change tomorrow."

Metas and the other companies which invested heavily in foreign technology and equipment in the 1970s are only too well aware that things can change suddenly.

They did so under the Ecevit Government in 1978 when the exchange rate guarantee on investment borrowing was suddenly ended, plunging many companies into a life and death struggle for survival from which they did not emerge in some cases until the middle of this decade.

In the last year, for example, Metas, has climbed back into the black, though it is not entirely clear how this happened. "Our former foreign exchange rate risk problems were solved by team work and improved management," says Mr Isin when pressed.

Last year Metas's pre-tax profit of TL351.6m (\$586,000) on gross sales of TL78bn (\$130m) was eaten up by losses from previous years, including TL2,644bn (\$5.8m) in 1985.

This year for the first time Metas's accounts will be externally audited by Deloitte Haskins and Sells and the expectation is that by the end of the year, accumulated losses will have been paid off.

Metas is in any case pressing ahead already with new investment projects.

Izmir Demir Celik, part of a group known generally as Izdas, has had an easier time. It made pre-tax profits last year of TL 1,774m (\$2.9m) on gross sales of TL 25,645m (\$42m).

Its progress under Mr Atilla Yurtcu who set up the original rolling mill in 1959 has been steady, though Mr Yurtcu currently puts most of his energy into running the group's export company from Istanbul.

He is a leading exponent of Mr Ozal's ideas and ran in the by-elections last autumn on the Motherland Party ticket for a vacant seat at Izmir.

Both Metas and Izdas have their eyes on similar export markets—Iran and Iraq, but also China, the Comcon countries, and even the United States.

"Transport and marketing are no longer a problem," Mr Yurtcu says. "The only difficulty is getting the price right in world market."

Turkey's Merchant Bank

IKTISAT BANKASI



Founded in 1927, Iktisat is Turkey's first Merchant Bank. Operating from a Head Office in a prime position in Istanbul, the Bank has spread out across the country and now runs a network of 18 Branches covering most major industrial centres. Each Branch is a full service corporate office with its own International Department, Capital Markets Group, and Credit Marketing Officers. Every Branch is linked to Head Office with a "real time/on line" computer system and the very latest software providing up to the minute banking systems.

In 1986 the services offered were further expanded by the formation of Iktisat Leasing, a wholly owned subsidiary of Iktisat Bank and Turkey's first leasing company. This company is backed by a technical service agreement concluded with the leasing arm of one of the world's major banks.



Errol Aksoy, Vice Chairman and Managing Director of Iktisat Bankasi.

Iktisat also owns 60% of Banque Internationale de Commerce in Paris.

TRADE FINANCE



Iktisat have 12% of the Turkish Trade Finance market.

Through all its Branches the Bank offers a full range of services to finance exports and imports on behalf of Turkish companies. Through a network of more than 300 correspondent banks world-wide, the bank is able to open letters of credit, negotiate documents, provide pre-shipment advances to exporters, collect export proceeds, issue guarantees, performance bonds etc. As all business is handled at Branch level, with all Branches fully authorised to process their own international transactions, time delays are few and a client's business is handled with a high degree of flexibility and efficiency. In 1986 exports to the value of U.S. \$848

million and imports to the value of U.S. \$647 million were processed through Iktisat Bank—in total approximately 12% of the entire non oil trade of Turkey.

CAPITAL MARKETS

The Bank is a member of the Istanbul Stock Exchange, and an active participant in the development of Turkey's Capital Markets. In 1986 a total of 19 Turkish Lira Corporate Bond Issues were underwritten and sold down by Capital Markets Group. The Bank is also a substantial dealer in Government Bonds and Revenue Participation Certificates, and is continually seeking ways to expand and increase the depth of the market.



Iktisat underwrote 40% of bond issues in Turkey last year.



Iktisat were the first Turkish Bank to establish a Project Finance team.

The new Commercial Paper Market is particularly interesting and the Capital Markets Group is fully capable of preparing and launching programmes for qualifying clients.

The Iktisat "Cash Management Programme" provides an efficient and flexible method for major companies to control their liquid funds and obtain a high rate of return whilst maintaining liquidity.

PROJECT FINANCE

The Iktisat Project Finance Team operates out of Istanbul and maintains close contact with all major companies, both private and public

sector, who are concerned with major projects in Turkey. In addition the Team arranges various financing packages to promote Turkish Exports. In 1986 syndicated loans were arranged covering the export of Tobacco, Pulses, Dried Fruits, and Cotton, as well as a 5 year financing covering industrial exports to North Africa.

At the present time the Bank is negotiating both in its own name and in conjunction with major foreign Investment Banks, for the financing of several major works including power stations, pipe lines, roads, dams, and new equipment for the modernisation of the telephone system.

The Team has obtained a line of credit supported by E.C.G.D. (Export Credit Guarantee Department of the United

Kingdom) to provide up to 5 year credit to Turkish Importers of U.K. origin capital goods and has the capability of providing similar schemes covering capital goods supplied from other European countries.

The Team is equipped to give advice to companies wishing to invest in Turkey and can provide information on joint venture partners, arrange introductions to appropriate Government departments, and actively assist in the financing of the project.

FINANCIAL HIGHLIGHTS

March 1987	(U.S. \$ in Thousands)
Shareholders' Equity	22,477
Total Assets	349,460
Loans (Net)	135,361
Net Income:	
For the year 1986	7,595
For first quarter 1987	2,347

For further information on Iktisat Bankasi, or any of our activities, please contact: Arthur Wilkinson, Assistant General Manager, Iktisat Bankasi, Buyukdere Cad. 165, Esentepe, Istanbul, Turkey. Telephone: (901) 172 7000. Telex: 27685. Fax: 172 3071.

IZMIR 4

The region's industries include agriculture and food products, petrochemicals and textiles.

Packaging holds back exports

NEXT TIME your children ask for French fries with their Big Mac, they may unknowingly be boosting Izmir's export figures. An Izmir businessman, Mr. Alpaskan Besikcioglu, sells MacDonalds the Idaho potatoes used by the fast-food chain in some countries.

Mr. Besikcioglu is the latest in a long series of food exporters from Izmir and the Aegean region, where for millennia a warm climate, fertile farmland, and a major port combine to make farming big business.

Two years ago, Yasar Holding opened a major new meat-processing plant and slaughterhouse near Izmir. It has since followed this up with the country's first marine fish farm, not far from its tourism complex at Alinyunus.

The Aegean region has 10 per cent of Turkey's total cultivated farmland, 8 per cent of its grain farms, but 22 per cent of its vegetable growing area and 28 per cent of its industrial crops, as well as 15 per cent of national meat production and 34 per cent of Turkey's egg production.

Several crops a year are raised on many farms which enjoy mild winters. Piyale, Turkey's largest producer of pasta and flour products, is based at Izmir. It was



Piyale, a Yasar Holdings plant, exports meat products

founded 65 years ago and makes about 43,000 tonnes of pasta and 1,500 tonnes of dried soups a year, and a long range of related products.

Turnover last year was TL 30bn (\$46m) on which it had a return of about 5 per cent. Though Piyale basically looks to the Turkish market, its exports to the Soviet Union, Canada, and Western Europe.

Packaging is still more of an obstacle than it ought to be for perishable goods, though less so than in the past. Traditional exports tend to be ones which travel easily—like dried figs,

raisins, or olive oil (though in Turkey most of the annual production of about 100,000 tons tends to go to the home market) and of course tobacco and cotton.

Approaches from interested buyers often precede export deals.

After packaging, communications remain something of a problem. The new enlarged Menderes Airport at Cumaovasi should help cargo flights from Izmir.

A greater change will come when Denizli's proposed airport at Cardak opens next year.

Petkin relies on domestic market

AS ONE MIGHT expect is one of Turkey's most developed regions, virtually all industry in the Aegean belongs to the private sector, with the exception here and there of Sumerbank textile plant. However, at Aliaga, about an hour's drive north of Izmir on the coast, the picture changes.

Aliaga has one of the principal concentrations of heavy industry in Turkey outside Istanbul. There are two private sector steel mills, a petroleum refinery, and Alpet, the country's second petrochemicals complex, commissioned at the end of 1984.

The site is also the home of the headquarters of Petkim, the state petrochemicals corporation, which owns both Alpet and an older sister plant, Yarpet, at Yarmica in the north near Istanbul.

Alpet is a child of the heyday of import substitution thinking in Turkey. Within a few years of the building of the Yarmica plant, it became obvious that demand would outstrip supply and a second complex was decided upon.

Turkish officials and engineers are understandably proud of the resulting complex of 12 production plants standing grandly by the coastline at Aliaga.

The plant was contracted out in 17 different international tenders (today the Turkish government would probably have to negotiate a single contract, perhaps under the Ozal franchise model—if it had ventured into a direct industrial investment) and 11 licensing agreements.

To develop local industrial skills, each of the foreign contractors was obliged to work with a Turkish subcontractor. "Turkish contractors got their basic industrial training here," says a Petkim official, "and then went on to use it in the rest of the Middle East."

"The present plant makes as much of its inputs as it can, including electricity. There is a 140MW power station on the

complex, powered by its 1,200 m3/hour steam generation unit. Assessing the viability of the project in a later period when Turkey is supposedly switching to trade liberalisation is not altogether easy.

For a start, some features of the investment have been overtaken by events. Last spring, Turkey stopped using Dodecyl Benzene (DOB) in detergents and washing powders and switched to LAB—which has to be imported.

This means not only that Yarpet's DOB plant is standing idle except for a small volume of production for exports, but also that the propylene and benzene which Aliaga used to supply to it are no longer needed.

More ominously, users report that despite initial claims that imported LAB would be more expensive, once import surcharges are removed, it works out about the same as Petkim's DOB.

For although Alpet reported profits of TL1.8bn (\$2.7m) last year on sales of TL201.8bn (\$310.4m) and Petkim as a whole reported gross profits of TL10,700m (\$16.4m) the corporation is not without its cash problems.

It has been a heavy borrower from the Turkish commercial banks and recently became the first state organisation in Turkey to float bonds denominated in foreign currency.

It also has a long-standing problem with Britain's ECGB over debts which go back to the late 1970s—£10.5m and around \$3m whose future is currently being negotiated, even though it carries a Treasury guarantee.

Like some Turkish private sector investors in the 1970s, Petkim seems to have found that importing technology is not enough; you also have to be able to survive in the market place. Unlike most of the private sector investors of the 1970s who have their sights on export markets, however, Petkim can pin its hopes on being able to hang on to local markets which are still highly protected.

Where cotton is king

TRAVEL THROUGH Turkey's Aegean region in the summer and you will see some of the world's finest cotton fields.

Turkey produces only about 500,000 tons of cotton a year, says Mr. Ahmet Cestindakar, President of the government-run agricultural cooperative, Tarsis, "but it is the quality of Turkish and Aegean cotton which gives it its recognised place in world markets."

Two thirds of Turkey's cotton crop is grown in the Cukurova, a plain in the south-east around Adana. Tarsis grows one third of the Aegean crop on its farms and turns out about 150,000 metric tons of cotton yarn in its factories, of which about 100,000 tons are exported.

Tarsis is one of the largest producers in a crowded and often impressive regional textiles sector with a long history. In 1914 the Girard family, until then carpet dealers, founded Izmir Pamuk Meniscet (in those days called "the Smyrna Cotton Manufacturers").

Seventy-three years later, it is one of Turkey's premier exporters of bed linen, and turns out 60,000 metres of cloth and 16 tons of yarn each day, with a total annual turnover of TL1.751m (\$2.8m) last year.

It is spinning, however, on which most Turkish textiles producers concentrated until very recently. The star of the Turkish spinning scene is undoubtedly Sokas of Soke, about 110km south of Izmir.

Sokas began like many Aegean industrial ventures—as a sort of farmers' and business-

men's cooperative in the early 1970s in which one family, in this case the Kayhan, eventually became dominant though even today most workers are also shareholders.

Sokas's reputation in the market is a bit awesome. "There are just not enough companies like this one around," says a foreign banker. "They are doing everything right. It is a textbook example of how you prosper in a competitive business if you know your customers thoroughly and lower costs continuously."

For its first few years, until it paid off its original investment borrowing in 1980, Sokas proceeded very cautiously, relying heavily on foreign consultants and external auditors. Since 1980 it has expanded and automated its spinning operations and this October will start weaving operations at a plant which its general manager, Mr. Muharrem Kayhan, hopes will be the best weaving operation in Europe.

Of its exports, 65 per cent go to the European Community, mostly Britain and Italy. Sokas likes to sell direct to users and by-pass merchants to save on commission.

"People are prepared to pay higher for Turkish yarn than for its competitors," says Mr. Kayhan. "When we sell to the EC, our price is the highest imported yarn price by far. On the other hand, the French are only just beginning to find out about Turkish yarn, while the American market will never be a big one for Turkish exporters."

"A US customer tends to want a discount of 15 per cent on local prices. The US buys about 3,000 tons of Turkish yarn a year, while the Community takes 80,000 tons. Things are different for cloth and garment exporters."

Just how different is shown by the example of Denizli Basmaz in Denizli, Denizli Basmaz has little of the high tech and aggressive marketing of Sokas.

But at Denizli Basmaz, the plant works 24 a day and outworkers are busy in towns for miles around, trying to keep up with bulk orders from the US. Last year the firm exported \$10m of printed cloth and ready-to-wear garments to the US. This year its exports should reach \$15m.

Profits last year were TL601,200m (\$1.3m). Just over half the firm's TL325m capital belongs to the Sivri family.

Though its export growth looks spectacular (five years ago, exports were only \$1.5m), the picture is not entirely rosy because of US attempts to restrict Turkey's textile exports. Each summer Denizli Basmaz faces two hurdles.

The first is getting the US government to agree to increase its quota for Turkish ready-to-wear. The next is trying to secure its share of the allocation made by the Exporters' Union—without which a US importer may be deprived of the goods it wants even if a quota is awarded. Fast performance is the main, but not the only, principle involved in the allocation.

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Banking Local names dominant

IN AN ALREADY overbanked country, Izmir looks overbanked. The 1.6m people who live in the Izmir metropolitan area have no fewer than 349 bank branches to serve them. Attracted by a prosperous population and a steady volume of export business, all the major commercial banks are present in force in the city.

So too are some foreign banks. Citibank has had a branch in Izmir for several years and its manager, Mr. Bradley Lalonde, is a key figure in local business life. More recently, American Express's Turkish subsidiary, KOC-American, has opened a branch and there are three or four other branches of banks such as BCCI.

"From the banker's point of view, Izmir is a very liquid, export-oriented place," says Mr. Rafael Taranto of the Egebank. "You never really have much difficulty in getting the funding you need."

This may explain the prominence of local banks in Izmir. There are three of them altogether including the small and often overlooked Tarisbank (Milli Aydın Bankası, to give it its full name) which belongs to the agricultural co-operative Taris and which last year managed a profit of TL 760m (\$1.2m). The name of Izmir banking however basically rests with local banks which have developed much wider reputations.

These are the Egebank and the Tütümbank, owned respectively by the Çukurova and Yasar groups. Both are relatively modest in size—the Tütümbank (the name means Tobacco Bank) has 38 branches, and capital of TL 8,550m (\$13.8m) and at the end of 1985 had deposits of TL 91.6bn (\$152m).

The Egebank has 28 branches, though another five are about to open, and capital of TL 5,391bn (\$8.9m) (an increase in its pipeline) and had deposits of TL 67,663bn (\$112m) at the end of last year in neither case does

the present ownership of the banks go back very far. The Çukurova bought the Egebank in 1976 and the Yasar group purchased an 80 per cent stake in the Tütümbank and moved its headquarters to Izmir in 1980.

Both banks are well positioned in Izmir's export markets and in May 1985, Irving Trust of New York purchased a 40 per cent stake in the Tütümbank—an arrangement which still remains unique in Turkish banking, though word is that Egebank might not be averse to a similar deal, if a suitable foreign bank were interested. After a difficult first year during which considerable management changes were needed, the joint venture settled down well.

Tütümbank's net income rose by 46 per cent in 1985 and by 206 per cent last year to TL 3,067m (\$5.1m). Net income for the Egebank rose by 28 per cent to TL 1,774m (\$2.9m).

Even so, Tütümbank still needs to grow to a large size before it can be sure of holding its place in the market indefinitely. Irving, moreover, would like to increase its stake in the bank from the present 40 to 51 per cent. But the Yasar group, unsurprisingly, is against the idea.

"According to the government, decrees involved, Irving Trust cannot have more than 49 per cent," says the bank's chairman, Mr. Seicuk Yasar. "Furthermore, as Yasar group, we are against the idea of a partnership."

Meanwhile, changes are afoot at the Egebank, where the outgoing general manager, Mr. Burhan Karacem, has gone off to run a small German bank owned by the Çukurova group. He is to be replaced by a Turkish-American banker, Mr. Ustun Sanver, 38, an Izmiri who is returning home from a post with Bankers' Trust in New York to take up the job.

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Both Manisa and Denizli have, in their individual ways, established dynamic business environments

Industrial zone proves a useful magnet

UNTIL 1970, Manisa was a charming but sleepy inland town forty five minutes away from Izmir by road. Its principal claim to fame was that in the early Ottoman Empire, successive sultans had served their apprenticeship in government there as crown prince.

In 1970, however, things changed. Turkey's second-ever industrial zone was opened there and since then Manisa has been a magnet for some of Turkey's most exciting industrial ventures, leaving the more sedate business world of Izmir well behind.

The zone was the brain child of the town's chamber of commerce, as long ago as 1964. It took four years, however, to get the green light from the government for the project and a further three years to build it.

The 1,750m sq metres zone cost about \$8m at today's prices and has been full to capacity for several years. Work is now starting on a 2m sq metre expansion so that applicant firms will not have to be turned away. The new work will cost about \$10m.

"We found it very hard to attract industry from outside the area in the early days," recalls Mr Metin Ersan, one of the zone's administrators. "Investment was picking up in Turkey but the new investors generally tended to stay around Istanbul and well-known places."

"So from 1974 onwards we launched an effort to introduce ourselves to them. We produced our own brochures and went around the big groups. It was an information rather than an advertising campaign."

The two main advantages which Manisa had were its proximity to the port of Izmir and the cheapness of its workforce. It was also early into the market. In those days, the only other industrial zone in Turkey was at Bursa, near Istanbul. By 1968, there were no fewer than 26 industrial zones under way.

By then, however, Manisa was fully established with 61 plants on the site, ranging from textiles to chemicals to packaging and electronics. Total employment was 9,150.

Some of the firms setting up have been foreign investors.

Later this year, the National Can Company of the US will open a \$13.5m plant, the first stage of a planned \$30m investment.

Not all the interesting plants on the site, however, are foreign. One of the most prominent names is Raks, an Izmir company which moved to the site about five years ago. Raks is one of Turkey's most ambitious companies.

It makes electrical appliances such as fans and clocks, but also audio and video cassettes. Two local businessmen, Mr Asim Onel and Mr Ataman Bukey, set up the company with the avowed aim of achieving excellence—and success in international markets.

The company makes virtually all its inputs itself, right down to cutting its own screws and printing its own labels. Mr Pulat Iplikci, the plant's manager, explains that both horizontal and vertical integration are needed because of the unreliable quality of most local producers. Economies of scale, he says, are not much affected.

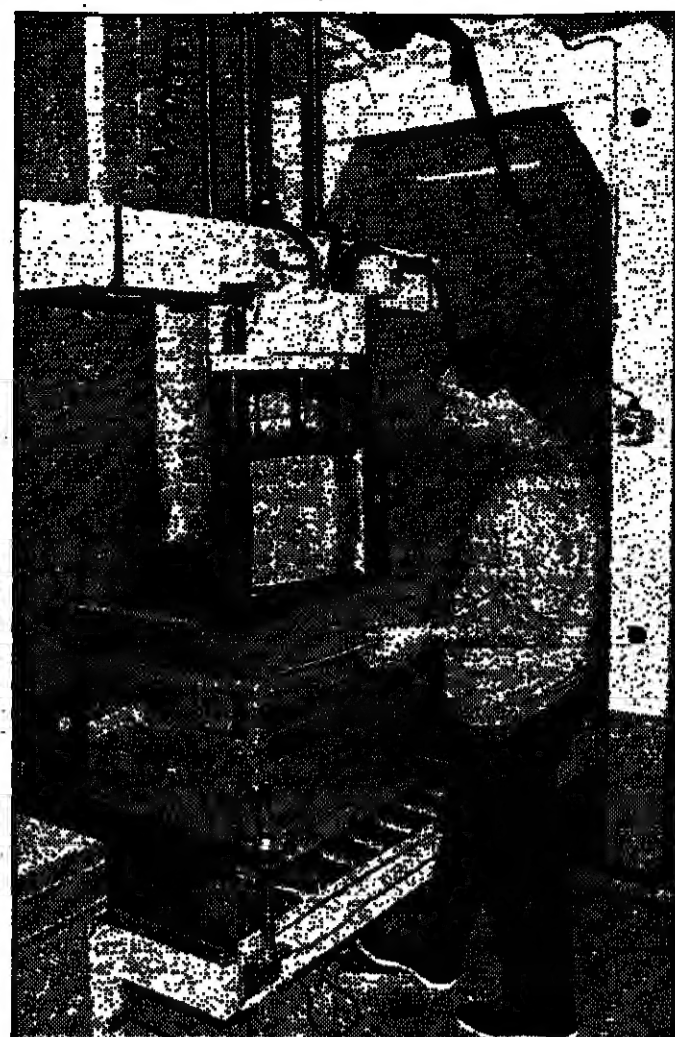
How has it been done? Since the beginning of the decade Mr Onel, an entrepreneur since his teens and still only 44 years old, says the group has invested over \$150m, with \$10m being spent in 1987 alone. Most of this sum apparently came from the group's other companies.

About 80 per cent of the elegant blue electrical fans made by the group are exported, mainly to Middle Eastern destinations. At present only about a third of the cassettes made by the group are exported, though a vigorous international advertising campaign is under way to familiarise foreign markets with the brand.

"It takes about three years to break into a new market," says Mr Onel. "Things don't really get going until the fourth year."

Raks produced 50m videocassettes and 20m videocassettes last year, and plans to boost these figures to 75m and 35m respectively this year. Export markets are in North America, the EC, and Australia, as well as the Middle East.

To meet production targets, the staff work four shifts seven days a week and are based in from Izmir.



Packaging TV sets at the Vestel TV and audio factory, Manisa

days a week and are based in from Izmir.

Next door to Raks in the Manisa industrial park is Vestel, a TV and electronics manufacturer belonging to the US-based Polly Peck International and opened only two years ago.

Paid up capital is TL 90n (\$10.5m) but the company says that it is continuously investing and upgrading its production line which has changed more or less totally since the May 1985 opening.

The company's manager, Mr Lutfi Yenel, says that Vestel is well pleased with its choice of Manisa as a location. "Land is cheap and labour is plentiful and we can attract plenty of good engineers locally from Izmir. We are paying only \$2 per metre annually over five years to purchase our site. On top of that the surroundings are extremely pleasant."

But he adds that being distant from suppliers and subcontractors is a bit of a disadvantage.

The group made swift inroads into the Turkish market, helped by shrewd marketing strategies and a brilliant advertising campaign. It is now looking to export markets and landed an order last month to supply Bush of the UK with 50,000 sets.

It has also set up a joint venture with Goldstar of Korea to manufacture up to 200,000 microwave ovens—something as yet totally unknown in Turkey, though the majority will be for export.

Last year, says Mr Yenel, Vestel was number three in the Turkish consumer electronics market. This year it expects to push up into second place. If things continue to go well, it hopes to be market leader by the end of 1988.

Farm goods and textiles

DENIZLI has no foreign investment. The names of Turkey's biggest industrial groups, such as Koc and Sabanci, are missing from the roll of local employers. There has been virtually no public sector investment in the province.

A recipe for economic backwardness and social misery? Not at all. Denizli is one of the boom provinces of Turkey with an obviously prosperous population who are confident of steady economic growth and do not believe they will have to go into debt to achieve it.

Mr Turker Baykal, local manager of the Turkiye Is Bankasi and himself from Denizli's big brother, Izmir, explains: "In many ways, Denizli is a much more go-ahead and dynamic business environment than Izmir."

"As the local firms here are sound. Exports are growing steadily. I would calculate that last year the town exported more than \$50m of its products, mostly farm goods and textiles."

Economic life in Denizli is dominated by families, just as it is in Izmir and other Turkish business centres. Most started looking from the land to industry in the late 1960s.

Not everyone struck gold. The industrial landscape here as in the rest of the Aegean is littered with the debris of small companies which proved incapable of managing their investments. Companies set up by workers returning from abroad were particularly vulnerable.

Rescuing such projects is the work of Denizli, an Ankara-based state investment bank, which injects new management and cash until they are on a sound footing once more and can be sold on.

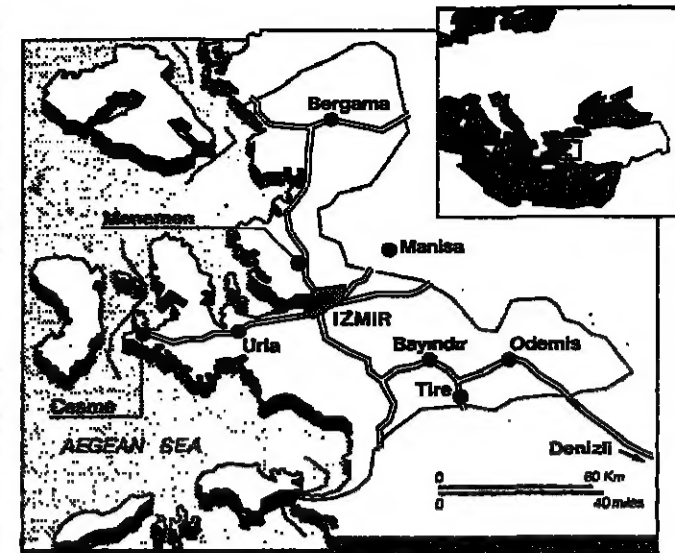
Denizli is the home of one of Turkey's most striking successes at Denizli Cam, the country's only glassmaker not to belong to the Is Bankasi's industrial empire. From heavy loss-making and near-closure in 1984, Denizli Cam made a profit of nearly 1m last year, and is currently building a new plant with the help of British consultants, King, Tandevan, and Gregson of Sheffield.

Denizli Cam is the seventh largest company in a varied local scene which includes one of Turkey's biggest cable makers, Ergur Kablo, and makers of household goods, packaging, agricultural products, and several textile companies, as well as a host of agricultural businesses.

The diversity is not accidental. "When you look at the industrial structure of Denizli," one manager explains, "you can see that protectionism goes very deep. There is a desire to select industries which no one else is already in and to avoid competition with your friends. It is potentially not very healthy."

Denizli's great advantages are much the same as Izmir's. Labour is plentiful and the workforce is well-educated. Energy costs are low because of the mild climate. Though it is 175 km from the sea, the town lies in the broad plains of the Mendere valley (the river which gave the word the word "meander"). Farmers can grow almost any crop they choose—several times a year.

"People begin as farmers and then go into trading," says Mr Akil Yagci at Dentas, a packaging company. "Eventually they look for other ways to use their money and go into industry. But



around here they always avoid debt."

Denizli also has considerable potential for tourism, being more or less equidistant between Izmir and Antalya and a natural midpoint for travellers going between the Aegean and the Mediterranean. Nearby are one of Turkey's most marvellous sights, the petrified waterfalls of Pamukkale, and the much-publicised ruins of Aphrodisias are also close.

To tap the tourism potential, more infrastructure is needed. "We paid TL50bn (\$76m) in taxes last year," says Mr Baluk Muftuler at the town's Chamber of Commerce. "But we didn't get back even TL1bn (\$1.5m) in services."

The complaint is justified because, though Denizli is not one of Turkey's more remote centres, it is off the beaten track compared to Istanbul or Izmir. Izmir Airport is a three-hour drive, and the journey to Istanbul consequently takes a whole day.

Denizli Basma ve Boya, the town's biggest exporter, feels that it is handicapped by the delay. "Istanbul is all that many foreign buyers ever see of Turkey," says an official at the company.

To offset this, Mr Muftuler is looking forward to the opening of the Nato military airport at Cardak, 60 km away, to some civilian and cargo flights next year. This should be a big help for farmers wanting to export perishable foodstuffs.

He would also like to see Fethiye, rather than Mersin or Izmir, being turned into a port for Denizli, though a glance at the map and the roads between the two towns raises questions about the practicability of this. However, some chrome shipments are already being made out of Fethiye.

A few miles north of the town is Denizli's industrial zone with space for 150 factories. The town hopes that some foreign investment will come to the site.

Many companies are preparing for expansion anyhow. There is talk of a cement plant. Dentas, founded in the early 1970s by Mr Caster Abalioğlu, is now gearing itself to set up a paper mill. Dentas expects profits of TL2bn (\$2.1m) this year on sales of TL11bn (\$11.5m) and will use them on the project.

The history of Dentas is instructive. Its initial ventures into industrial operations were made without the help of outside consultants, relying heavily on advice from supplier companies.

The results were not altogether easy for the first few years, though Dentas got the most important thing right: it had its bank borrowing denominated in Turkish liras and so was spared the shocks which battered many other companies when the currency began to sink at the end of the decade.

Denizli looks from the outside like an area where the policies of the Prime Minister, Mr Turgut Ozal, are working well. Many, though not all, local businessmen dispute this. Trade liberalisation seems to be actively unpopular with them and there is a clear wish to see more subsidies for farmers.

"We import too much these days; things we don't really need like foreign cigarettes," says one of the town's business leaders. "If foreign cigarettes have to come in, well a few can always be smuggled," he adds, standing one of the Prime Minister's favourite arguments neatly on its head.



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IZMIR 6

Tourism

Boom reaches Aegean resorts

TOURISM is a boom industry in Turkey's Aegean region, and after a disappointing season last year, the 1987 figures are surprising even among the operators themselves.

Arrivals this year in the five months ended in May were a whopping 74 per cent up on the 1986 levels and more than double official projections. Some Turkish resorts, overshadowed for years, are now actually more crowded than more familiar Greek ones across the water.

Kasadas, for instance, is much more crowded this summer than Pythagorion, the premier resort of near-by Samos.

The boom in Aegean tourism follows two distinct waves of investment. First came government spending on infrastructure.

It has built new airports such as Dalaman (opened in 1980) and latterly the refurbished Menderes airport at Cumuovasi outside Izmir which should be able to handle up to 4m travellers a year.

Along with this has gone work on roads and telephones. Gone are the days when people would take a boat to Chios just to make a telephone call.

Next came the private sector investment in hotels and holiday villages.

The region's premier resort hotel, the 1,030 bed Altinyunus (Golden Dolphin) complex at

Cesme illustrates the change. When it was opened in 1974, as part of a joint venture between the Yasar group and a Danish company, tourism in Turkey was an economic sideshow.

In the early 1980s the hotel was actually losing the group money.

No longer. The number of visitors staying at the Altinyunus rose from 23,312 in 1983 to 40,852 (or 172,566 bed nights) last year. The complex made a gross profit of TL 889,979B (\$1.3m) and is now one of Yasar's more profitable operations.

In the summer months, the overwhelming majority of the guests are foreigners, mostly from northern Europe. But, as the Altinyunus's deputy general manager, Mr Aydin Alam explains, tourism operators in the Izmir region feel more than a little disadvantaged vis-a-vis those on the country's Mediterranean coast.

Here in the Aegean, we have to make all the infrastructure ourselves. We can't rely on the government or the local municipality for support as much as they can in the south. We have to build our own wells, access, and even an emergency generator," says Mr Alam.

Despite this—and a tendency for the Aegean to become the area where well-to-do Turks have their holiday homes—the region's tourism industry is set on an upwards course.

Izmir is not only a major business centre, but also the main city in a region with more or less unequalled tourism attractions. Around it are some of the most famous ruins anywhere in the world—Ephesus, Pergamon, Pamukale, Sardis, Aphrodisias—which generate their own streams of visitors.

The tourism director for the region, Mr Serif Unal, says that one bottleneck is finding qualified personnel and completing necessary infrastructural developments. Hotel building is going on apace.

Apart from the proposed new Sheraton in Izmir (partly financed by Polly Peck International) and the Hilton, there are plans for a third five star hotel, five new four star hotels, and others right down to the motel level. But it is less clear that the supply of trained hotel staff will be able to keep pace with this upsurge in demand.

Over the next two years, a total of 5,000 new beds will be added to the existing ones, part of a nation-wide process which is expected to have taken Turkey's stock of certified tourist-class

beds from 80,000 to 120,000 within three years by next spring.

The opening of Menderes airport will make it much easier for large numbers of charter flights to come into the city and to connect with destinations such as Bodrum and Kusadas.

The number of these is growing very fast. Last year, Mr Dincel (a former air force general) says, Izmir had 1,000 charter flights. This year the figure is 1,700.

At the chamber of industry, Mr Erkin Farayali points out that tourism is going to be the region's major moneyspinner until well into the next century. Some hotels, he says, have bookings right through until the year 2,000 and in many of the best ones it is virtually impossible to get a late booking during the summer months.

Turkey is relatively new as a major tourism country and the development of the industry has been less bumpy than some feared a few years ago.

But there are some snags, of which holiday makers, especially those in yachts, should be warned. The country's bureaucracy is only gradually learning that foreigners are more used to a liberal environment. There can be snags for tourists, such as yachtsmen, who



Izmir's famous clock tower

bring what the customs authorities regard as valuable equipment into the country—and have it accordingly marked into their passports.

It is only fair to point out that such events are very much the exception rather than the rule.

The system seems to be adjusting gradually. For most modern tourists, their strongest memory of a holiday in Turkey this summer will be a sense of wonder—at the ruins of Ephesus, the waterfalls of Pamukale, and literally unbelievable tranquillity of the sea around Cesme.

the pious wing of the Motherland Party. He is a native of Bursa, a city between Istanbul and Izmir. He went to university at the seed bed of Turkey's civil service, the Faculty of Political Sciences in Ankara, where he studied finance and accounting.

Later he settled in Izmir, teaching at the university there and writing on business and economic topics in one of Turkey's daily newspapers.

His acquaintance with the prime minister, Mr Turgut Ozal, stretches back to 1972 and for a while he acted as his adviser on tax affairs.

However, until the formation of the Motherland Party in the spring of 1983, Mr Ozaltura had never been a member of a political party.

Izmir was relatively little affected by the political violence of Turkey in the late-1970s and Mr Ozaltura ardently hopes that the tranquillity will continue.

Ordinary citizens express broad approval for the way the city has been run under him.

Profile: Mayor Ozaltura

Izmir's social conscience

A major dredging operation, financed partly by the European settlements Funds and partly by the Kuwaiti and Saudi Development Funds is under way. The aim is to make the waters of the Bay of Izmir, almost as unpolluted as they were only a generation ago in the 1950s.

This is only the most eye-catching of a series of activities which have taken Izmir's budget from TL7bn. the year before Mr Ozaltura took office, to an expected TL120bn in 1987.

"We are suffering as a result of badly directed urban development in the past," says Mr Ozaltura. He says that 84 per cent of the development funds have gone to the city's shantytowns which house an immigrant population from the rest of Turkey. "We have solved their sewage problems," says Mr

Ozaltura. "And now 85 per cent of them have mains water. Others are served with water from tankers. Roads in these districts are now mostly asphalted."

"This is not a political investment," he says. "But an urgent necessity."

In general, however, the mayor is proud of his city's level of prosperity. Izmir has the best medical services in Turkey, he says, with numbers of doctors and hospital beds per head running at the same level as Vienna's.

Literacy levels are well above the national average and there are two universities. When the new Menderes Airport at Cumuovasi is completed, Izmir is expected to have better international connections by air than the Turkish capital Ankara. A building programme is

under way to add 17,000 new homes to the city's housing stock—with 10,000 due to be completed in 1987 alone.

"But our main problem is migration to the city," says Mr Ozaltura. Only 30 per cent of the city's population were born in it. There are an estimated 40,000 new arrivals every year, most of them from Turkey's backward eastern and south-eastern provinces.

"Somehow we will have to slow down the population increase," Mayor Ozaltura says. As a form of social relief, he has opened 39 kitchens to dole out food for up to 16,000 poor, aged, or widowed individuals. About 4,000 scholarships for students from poor families have been set up.

If this sounds somewhat like traditional piety, it is no accident. Mr Ozaltura comes from

Business guide

Consular axe unwelcome

THERE ARE about 12 flights a day on Turkish Airlines to Izmir, but only one direct flight daily (at 8 pm) from Ankara.

At present all flights land at Cigli, a military airport on the coastal flatlands north of the city. At an unspecified date later this year, the old airport at Cumuovasi will reopen with a new terminal, renamed as Menderes Airport. This will chiefly benefit travellers on their way to the coastal resorts south of Izmir, such as Bodrum and Kusadas.

For internal flights, there is a bus to the airport leaving from the door of Buayk Efes Hotel an hour and a half before take-off. Air travel is the most painless way to arrive. Intercity highways are congested and not for the faint-hearted or inexperienced driver. There is an overnight sleeper train service to Ankara. It leaves at 6 pm each night from each city and is supposed to arrive around 10 am the next morning. In practice, it may be as much as six hours late.

A ferry boat leaves Istanbul on Fridays and arrives in Izmir on Saturday morning, departing from Izmir again on Sunday evening to arrive back in Istanbul on Monday. Berths tend to be booked up well in advance even in winter.

Few international airlines currently fly into Izmir, though Lufthansa and KLM do so a few times each week. Turkish Airlines has direct flights once a week to some European cities including Athens, London, Nicosia, Paris, Rome and Zurich.

Consulates
The United States, France and Greece maintain full consular services in Izmir. Britain is represented by a hard-pressed Vice-consul (Tel 211 785) whose helpfulness towards travellers in trouble (especially those who have been involved in a road accident—something we tend to give rise to serious legal complications in Turkey) is legendary. But there is a strong case for returning to the fuller representation, particularly for commercial affairs, which existed before the Foreign Office wielded its axe in the mid-1970s.

There are many churches in the city, mostly Catholic, and a Catholic archbishop. The Church of England maintains a church contactable through the consulate, presided over by a grandly-styled Archbishop of the Aegean.

The people

Izmir is basically a merchant city, and this makes it somehow both more Western and more conservative than Istanbul. Family ties tend to be very strong. There is less conspicuous consumption. On the other hand there is less formality over clothes and other matters—probably because of the climate.

Where to stay

Hilton, Sheraton and Plaza Hotels will appear in Izmir before the end of the decade. Until then the traveller basically has to choose between the Buayk Efes Oteli (tel. 144 300, telex 52341 Efes TR), with 444 rooms, satellite television, and a swimming pool, and the Etap Oteli (tel. 194 090, telex 52233 Etl TR) just across the road.

The Etap is perhaps somewhat more geared to the requirements of the modern business customer than the Buayk Efes whose style is friendly but a touch Eastern European. But the Etap lacks a swimming pool.

Both hotels are extremely conveniently situated in the middle of town. Avoid taking rooms overlooking the pool at the Buayk Efes—the pool is rented out for parties several evenings a week and the music can be loud. A single room at the Buayk Efes costs about \$73 and at the Etap about \$49, though this somewhat overstates the difference between the two hotels.

If, as often happens in summer, both the Buayk Efes and the Etap are full, you could stay at the Anb Oteli (Cumhuriyet Bulvari 124, tel. 144 380) or the Izmir Palas (Vasif Cinar Bulvari 2, tel. 215 583, telex 53041).

Eating out

Izmir's number one restaurant is the Park Restaurant (Park Turistik Isletmeler A.S., Kulteypark, Izmir, tel. 193 580), which is partly owned by Yasar Holding.

The main rival to the park is Yengec, just off the waterfront in a renovated 19th century Greek house with Art Nouveau decor, serving most traditional fish dishes (Cumhuriyet Bulvari 238, Alsancah, Izmir, tel. 217 368).

Along the waterfront in Alsancah are a number of fish restaurants, though most of these are little more than tourist traps. Deniz-1 (Ataturk Caddesi 189/3, Tel. 220 601) and Deniz-2 (slightly more informal)

are probably the best of these. For kebabs, try Mangal (Ataturk Caddesi 110/3, tel. 233 880).

Finally, for strictly informal evenings where the rakı flows freely, you might look up either Klob Orhan (1489 Sok 26 Alsancah, 215 643), situated in a side street, which serves excellent fish. It is the sort of restaurant Ernest Hemingway might have loved.

For cakes and ice cream, try the Cafe Plaza, also in Alsancah.

Cultural activities

People in Izmir grumble that there are not enough concerts and plays, though the city's festival, held for the first time this summer, may change this. The Ataturk Kultur Merkezi is the scene for occasional concerts and there are also performances of plays in Turkey by the state theatre and sometimes of operas.

This year has seen several concerts, of classical and non-classical music, in the Roman theatre at Ephesus. The occasion is inevitably a scramble since it is at least an hour's drive away from the city but the builders of the theatre knew more about acoustics than the modern successors. If you have the chance to hear a concert of classical music here, seize it.

In Izmir itself, there is a magnificent castle, partly built by the knights of Rhodes, known as the Kadifkale, on the ancient Mount Pagus.

Virtually the only survival from the Roman city, which was regarded in its day as among the most beautiful in the world, is the Agora.

A short drive outside the city to Kemalpasa, takes one to the Nymphaeum, a palace built by the Byzantine emperor, Andronicus I Comnenus (1183-88). Further afield like many of the world's best preserved ancient sites—Ephesus, Pergamon, Sardis and (a longer journey) Aphrodisias and Hierapolis (Pamukale). All are totally different in their settings and appearance and each is well worth a visit.

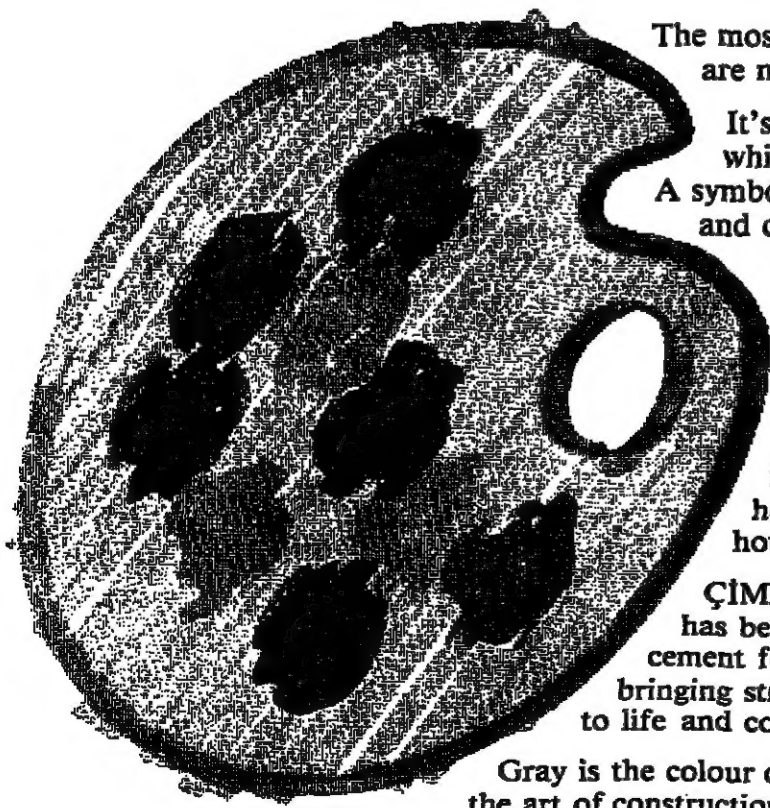
Those interested in exploring these and a host of lesser cities should consult George Bean's justly famous guide book Aegean Turkey and Turkey beyond the Meander, both published by John Murray.

There is a multitude of places to go for picnics and short excursions.

Trips to the Greek islands are possible from Kusadas (to Samos), Cesme (to Chios), Ayvalik (to Lesbos), and Bodrum (to Cos).

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